Caribbean Utilities Company, Ltd.
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Caribbean Utilities Company, Ltd.

2010 Annual Report

General Data

About the Company

Caribbean Utilities Company, Ltd., known locally as "CUC", commenced operations as the only electric utility in Grand Cayman on May 10, 1966. The Company currently has an installed generating capacity of 151.230 megawatts (MW), and a new record peak load of 102.086 MW was experienced on June 3, 2010. CUC is committed to providing a safe and reliable supply of electricity to over 26,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's development for 45 years.

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

Highlights

Financial Results in Brief

(Expressed in thousands of United States dollars, unless stated otherwise)

	Twelve months ended Dec. 31, 2010 $	Twelve months ended Dec. 31, 2009 $	Change %
Operating revenues	**180,096**	158,809	13%
Electricity sales	**69,517**	69,433	0%
Fuel factor	**110,579**	89,376	24%
Total operating expenses	**154,182**	134,834	14%
Finance charges	**9,143**	7,071	29%
Earnings for the year	**19,879**	20,013	(1%)
Total assets	**398,964**	399,546	0%
Total shareholders' equity	**173,841**	171,942	1%
Cash from operations	**41,896**	42,845	(2%)
Earnings per Class A Ordinary Share ($ per share)	**0.67**	0.67	0%
Dividends per Class A Ordinary Share (paid and declared) ($ per share)	**0.66**	0.66	0%
Book value per Class A Ordinary Share ($ per share)	**5.96**	5.90	1%
Class A Ordinary Shares ($ per share)			
Market price: High	**9.80**	9.49	3%
Low	**8.00**	6.55	22%
Year-end	**8.93**	8.26	8%

Performance

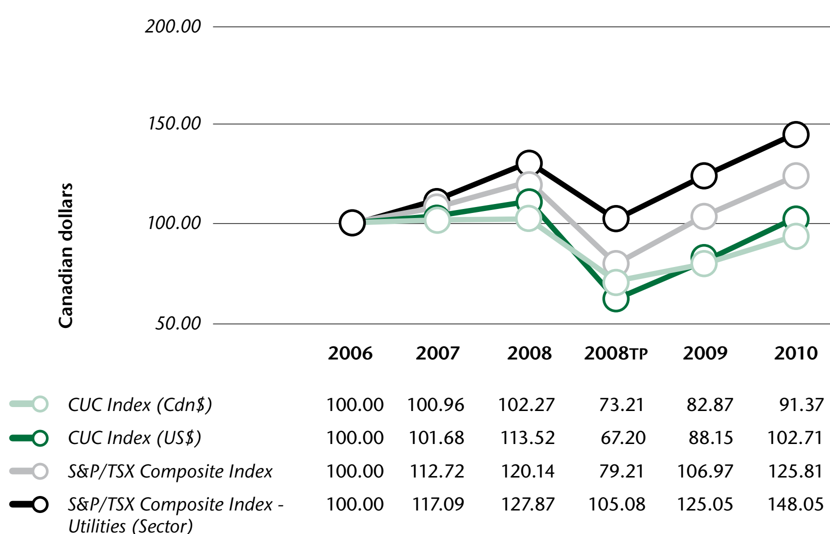
Net earnings for the twelve months ended December 31, 2010 were $19.9 million. A decline in kilowatt-hour sales and an increase in operating expenses contributed to a 1% or $0.1 million decrease from net earnings of $20.0 million for the twelve months ended December 31, 2009. Dividends paid and declared on Class A Ordinary Shares were $0.66 per share. The Class A Ordinary Shares (CUP.U) traded on the Toronto Stock Exchange at a high of $9.80 per share in 2010.

Rate of Exchange

The closing rate of exchange as of December 31, 2010 as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was Cdn$0.995 per US$1.00. The official exchange rate for conversion of Cayman Islands dollars into United States dollars, as determined by the Cayman Islands Monetary Authority, has been fixed since April 1974 at US$1.20 per CI$1.00. Thus, the rate of exchange as of December 31, 2010 for the conversion of Cayman Islands dollars into Canadian dollars was Cdn$1.194 per CI$1.00.

Share Performance

Comparison of five-year cumulative total returns between Cdn$100.00 and US$100.00 invested in CUC Class A Ordinary Shares and the S&P/TSX Composite Index - Utilities and S&P/TSX Composite Index.



Information reflected in this Highlights section should be read in conjunction with the disclosure contained in the Management's Discussion and Analysis and its associated cautions beginning on page six. All dollar amounts in this 2010 Annual Report are stated in United States dollars unless otherwise indicated.

To Our Shareholders

David E. Ritch, OBE, JP
Chairman of the Board of Directors

J.F. Richard Hew
President & Chief Executive Officer

It is our pleasure to report to our shareholders, the financial and operational progress of Caribbean Utilities Company, Ltd. ("CUC" or "the Company") for the twelve month period ended December 31, 2010 ("Fiscal 2010").

Financial Performance

The year in review has seen economic contraction in the Cayman Islands and little development on Grand Cayman (the "Island").

There has been a continuation of the recession that began to impact the Island in 2009. A fall in Gross Domestic Product ("GDP") was reported for 2009 at negative 4.7% as compared to 1.2% in 2008. The 2010 Third Quarter Economic Report released by the Cayman Islands Government ("the Government") indicates that the Cayman Islands 2010 GDP contracted at an annualised rate of negative 5.8% for the first three quarters of 2010. The 2010 projection for GDP growth by the Government is presented as a range of negative 3.5% to negative 4.5%. This projection was attributed to the fact that lackluster economic recovery persists in major source markets which continue to impact the domestic economy.

During the latter part of 2010, the Government announced measures they believe will attract prospective investors and enhance growth. The Government anticipates that the economy will start to recover over the next two years.

Kilowatt-hour ("kWh") sales decreased in Fiscal 2010 by 1% to 553.8 million in comparison to 558.1 million for the twelve months ended December 31, 2009 ("Fiscal 2009"). Sales were negatively impacted by the contracting economy and cool weather conditions that affected customer air conditioning load and usage in the fourth quarter of Fiscal 2010.

Despite lower kWh sales, operating income increased 8%, or $1.9 million to $25.9 million for Fiscal 2010 from $24.0 million for Fiscal 2009, reflecting overall improved efficiencies.

Net earnings decreased slightly in Fiscal 2010. Earnings were $19.9 million, representing a 1% or $0.1 million decrease from net earnings of $20.0 million for Fiscal 2009. This decrease is due to the 1% decline in kWh sales, increased depreciation expense and an increase in finance charges.

After the adjustment for dividends on the Class B 9% Preference Shares of the Company, earnings on Class A Ordinary Shares for Fiscal 2010 were $18.9 million, or $0.67 per Class A Ordinary Share, comparable to $18.8 million, or $0.67 per Class A Ordinary Share for Fiscal 2009.

Electricity sales revenue increased $0.1 million in Fiscal 2010 to $69.5 million when compared to electricity sales revenues of $69.4 million for Fiscal 2009. Electricity sales revenues are higher mainly due to an increase in kWh sales in the "Other (street lights, etc.)" category, increased customer numbers and a base rate adjustment in June 2009.

Fuel factor revenues for Fiscal 2010 were $110.6 million, a 24% increase from the $89.4 million in fuel factor revenues for Fiscal 2009. Fuel factor revenues increased due to an increase in the cost of fuel. The average Fuel Cost Charge rate per kWh charged to

consumers for Fiscal 2010 was $0.20, an 18% increase from $0.17 per kWh for Fiscal 2009. CUC passes through 100% of fuel costs without markup to consumers on a two-month lag basis.

The Company's average price per imperial gallon ("IG") of fuel for Fiscal 2010 increased to $3.45 from $2.77 for Fiscal 2009 due in part to the increase in Government duty from CI$0.50 to CI$0.75 per IG in July 2010. The Company's average price per IG of lube for Fiscal 2010 decreased to $11.01 from $12.96 for Fiscal 2009.

Other generation expenses totalled $2.6 million, a $0.7 million decrease when compared to $3.3 million for Fiscal 2009. This difference is primarily due to efforts to control discretionary costs.

Customer Service and Operations

At the end of December 2010, there were 26,151 customers, an increase of 3% compared to 25,461 customers as at December 31, 2009. An average of 58 customers were connected per month for Fiscal 2010 as compared to an average of 79 customers per month for Fiscal 2009. The Company continues to see an increase in customer numbers but also continues to see a decline in the average customer kWh consumption.

According to reports from the Government, the number of work permit holders on Island has declined substantially. This has caused some rental properties to remain empty with an active connection. Added to this is continuing economic uncertainty which has led to increased conservation efforts, most significantly in the residential customer class.

In spite of the economic challenges, the Company continued to invest in infrastructure and equipment during Fiscal 2010 although at a lower level than in Fiscal 2009 when capital expenditures of over $19.0 million were made on generation expansion. Capital expenditures for Fiscal 2010 were focused on transmission and distribution upgrades and generation Power Plant replacements and upgrades. For the one year period, capital expenditures were $21.4 million, down $21.3 million or 50% from $42.7 million in Fiscal 2009.

The Company bases its generation expansion planning primarily on historical growth trends and planned commercial developments.

A strategic alliance agreement with MAN Diesel SE ("MAN") provides the Company with "most preferred customer" pricing as well as other advantages associated with improved design and construction, shorter delivery lead times and standardization of equipment, parts and training. The Company is well positioned for any future generation development as a result of our long-range planning.

Providing a reliable service is key to the success of our business and has been essential in encouraging growth on the Island. Customer surveys were conducted twice in Fiscal 2010 and indicated a customer satisfaction level of 86%. Reliability, measured by the Average System Availability Index, was 99.966% and exceeded Fiscal 2009 results. Despite economic challenges on the Island, we see safe and reliable electricity supply as critical in supporting the established financial services and tourism industries as well as in attracting new development.

Service reliability is a function of system integrity and continuous improvement of infrastructure. In response to lower reliability levels experienced in the eastern districts of the Island, the Company has installed an additional transmission link between Rum Point and the existing Frank Sound Substation. The completion of this link provides for alternate routing of power during planned or unplanned maintenance or repairs of the transmission system and will reduce the related number and duration of outages to customers in the eastern districts.

The Company also continues to raise the standards for new and replacement infrastructure as technologies and available capital allow. The Company remains fully dependent on diesel fuel for generation despite continued efforts to employ renewable sources. With the introduction of Consumer Owned Renewable Energy ("CORE") tariffs in early Fiscal 2009, the Company entered a new era of relationship with a component of its customer base. Customers with an interest in environmentally friendly renewable generation may now connect to CUC's distribution grid and receive credits for generated power.

The Company proposed to the Electricity Regulatory Authority ("ERA") and the ERA has approved a Feed-In Tariffs ("FIT") programme. FIT provides for CUC to purchase energy from CORE generators at a rate approximate to the true cost of the renewable energy and to pass this cost through in the fuel factor. The FIT programme will initially run for a year with an introductory rate of CI$0.37 per kWh for customers generating approved renewable energy and is subject to a total of 1 megawatt ("MW") limitation on installed participating capacity. The programme is cost-neutral to CUC. The FIT programme reflects current successful practice in Europe and North America for the promotion of consumer generated renewable energy. It is therefore expected that there will be an increase in the number of customers joining the CORE programme in the near future.

In Fiscal 2009, the Company

issued a request for proposal to pre-qualified third party developers for wind turbine non-firm generation projects to an aggregate of 10 MW. Through the solicitation process, the Company has gained insight into the economic feasibility and potential for the development of wind generation to supplement diesel generation. The project was expected to be realised as additional energy purchased by CUC from an Independent Power Provider (IPP) under a non-firm Power Purchase Agreement (PPA). The Company entered into exclusive discussions with the lead bidder in early Fiscal 2010. However, the project has been suspended following an announcement by the Government that a Doppler weather radar installation would be located in close proximity to the proposed wind generation site.

Potential interference with the Doppler radar created by wind turbines, coupled with local airport flight path restrictions presently preclude the installation of wind turbines on the Island. CUC remains committed to pursuing alternative energy sources that are viable for the Island.

The Company has moved closer to implementing an Advanced Metering Infrastructure ("AMI") system and is in the final stages of finalising contract terms with the chosen vendor. This project will reduce meter reading, service connection and disconnection costs and provide the availability of real time data to assist customers with the monitoring and control of their energy consumption. The first phase of the project, which includes pre-paid metering, is anticipated to be rolled out to selected customers in the near future.

The Company introduced a number of initiatives aimed at leveraging information technology to improve efficiencies. Efforts aimed at improving the customer experience include the introduction of E-Billing, which allows customers to receive their bills electronically. A Mobile Workforce Management (MWM) system was also introduced through which customer requested job orders are received, executed and updated by service crews in the field, providing a more expeditious service and job status update information for customers.

The recently introduced Bar-Coding solution has allowed the Materials Management Department to issue items from inventory via a handheld device. This has reduced the need for data reduncancy as the items that are issued are automatically posted to the Purchasing Inventory System.

Another initiative called Executime allows employees to enter their time worked in an electronic format. It also allows employees to view and request benefits electronically.

During the year, the Government formed a National Energy Policy Committee to create a sustainable energy policy for the Cayman Islands for the next 20 years and CUC maintains representation on this committee.

Human Resources and Training

CUC remains committed to providing Caymanians with the training necessary to excel in their respective fields and to ensure that they are afforded the opportunity to assume positions of responsibility within the organisation. The Company recognises that an ongoing human resource development programme is essential to ensuring the continued growth and success of the Company.

Despite challenging economic circumstances, the Company committed through Fiscal 2010 to retain its well-qualified employee compliment.

The year in review saw the curtailment of off- island training. However, employees were exposed to a number of training opportunities in-house as well as to courses offered on-island. Ongoing health and safety in-house training continued with Energy Control Procedure training for all technical departments and International Occupational Safety and Health Administration (OSHA) Certification for nominated Safety Officers.

The Company also launched its internal supervisory training course in September. The course was created for a cross-section of first-line supervisors. The Company also launched its formal Mentoring Programme for its first round of identified "top talent" in Fiscal 2010.

CUC established its scholarship programme in 1989 and since then has awarded full and partial scholarships to over 30 current and past employees in the fields of mechanical and electrical engineering, information technology, systems operations, environmental management and financial services. Three of the Company's five executives and three of its 13 managers were educated through CUC scholarships.

In January 2010, CUC welcomed back one of its scholarship recipients following his graduation with a Bachelor of Science degree in Electrical Engineering Technology.

Environment and Safety

The Company's objective is for continuous improvement in environmental performance and aims to achieve this by maintaining its Environmental Management System (EMS) that is International Organization for Standardization (ISO) 14001 certified. Significant Environmental Aspects which are the

focus of the EMS include air emissions, waste management, petroleum management, and hazardous materials and chemicals management.

An initiative to align the Company's health and safety management system with the Company's ISO 14001 compliant EMS commenced in the third quarter of Fiscal 2010. The objective of this initiative is to introduce the best practices of the ISO registered EMS system to the safety management process and to improve the efficiency in administration of these two critical management systems.

On January 28, 2011, the Company experienced an explosion, which resulted in burn injuries to two employees, one of whom had to be transported to Miami, Florida for extensive medical treatment and is currently recovering in the hospital.

We wish both employees a full recovery and we look forward to welcoming them back to the Company. The fact that this is the first time such an incident has taken place in the past 45 years speaks to the effectiveness of the Company's safety practices.

Safety remains our number one priority as there is an inherent high risk of injury to employees or the public in our business if safety risks are not properly managed.

In Fiscal 2010 there were seven loss-time injuries recorded at the Company during the over 400,000 man-hours worked. The Company will continue its efforts to reduce the incidence of injuries by carrying out root cause analysis of all accidents and near misses and taking action to mitigate against recurrences. On a proactive basis it will continue to raise the profile of safety by management job site visits, safety audits and by providing job planning, hazard identification and general safety and technical training to employees.

Community

The Company participates in a variety of community involvement activities through donations and employee volunteerism. These activities are primarily focused on youth development through sports and education, environmental awareness and protection. The Company provides ongoing support to the Lighthouse School and Sunrise Adult Training Centre, two facilities that cater to special needs children and adults.

Employees volunteered 1,378 hours to participate in the Company's Community Involvement projects. These included the Big Brothers, Big Sisters programme, Meals on Wheels, the Cadet Corps, the Cayman Islands Scouts Association, the Lighthouse School and the Sunrise Adult Training Centre. CUC also sponsors an educational programme, which exposes primary school children to the Island's marine environment.

The Company continued its focus on youth and sports in the community including its long-term commitment to the CUC Primary Football League which facilitates the healthy development of youth under 11 years of age through competitive physical activity. Over 450 children representing 15 private and public primary schools participate in this highly successful programme.

The Company again proudly recognised 10 employees who collectively contributed 915 hours of their personal time to the community.

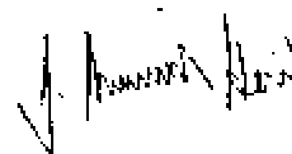
Summary

As the Cayman Islands remained in an economic recession, the Company responded by focusing on controlling discretionary expenditure. The Company will continue to operate in a prudent and efficient manner and remains focused on providing its customers with a safe and reliable service.

As we prepare to mark our 45th year of operations in Grand Cayman, we remain powered by our commitment to delivering value to our customers, our employees, our shareholders and the community we serve. In this report there are images which recall the history of our Company, highlighting its people, Power Plant and equipment.

CUC continues to rely on the guidance and support of its Board of Directors and we thank them for their ongoing contributions. We also thank our loyal employees for their hard work and dedication to the Company.

David E. Ritch, OBE, JP
Chairman of the Board of Directors

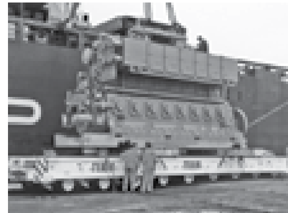


J.F. Richard Hew
President & Chief Executive Officer

March 7, 2011

45 Years of Powering Grand Cayman

Grand Cayman bears little resemblance to the sleepy island it was in 1966, the year in which CUC began operations. The Island now boasts industries and services, including infrastructure, which are second to none. Since CUC started operations on Grand Cayman, there has been significant growth and development in the country's economy and infrastructure. During this time, the Islands' financial services industry was born and has matured, as has the local tourism and real estate industries, to name but a few. All of this development took place while CUC continuously provided a reliable service and ongoing power infrastructure and support in development and growth.



May 10, 1966 was a significant day in the Company's history as detailed in "The History of Caribbean Utilities", an unofficial history of the Company written by a former General Manager, Mr. Edwin J. "Ted" Bowyer. It was on that date that Caribbean Utilities Company, Ltd. took physical possession of all machinery, equipment, supplies and property which were previously owned by Cayman Islands Government Electricity Undertaking.

When CUC commenced its operations there were a total of 52 people, all except two of whom were Caymanians. Today the Company employs 192 persons and 93% of these are Caymanian.

Over the years, the Company's focus has remained on developing our employees to reach their full potential. The Company consistently strives to enhance productivity and to create a high-quality working environment for all of our employees.

The Company has also significantly invested in its people through the provision of various training opportunities on the Island as well as overseas.

In May 1966, the Company had 650 customers; today there are over 26,000 customers. Forty-five years ago the Company had 1.36 megawatts ("MW") of installed capacity; 45 years later there are 151.2 MW of installed capacity. In those early days the peak demand was 900 kilowatts; it is now 102.1 MW.

Over the years CUC has invested significantly in transmission and distribution as well as in generation equipment including new generators, substations, poles, and automated equipment in order to enhance performance and reliability and also to meet the demands of customer growth.

Indeed, the growth and success of Grand Cayman has been based in no small measure on the reliability of the country's infrastructure. The reliable provision of power is an integral component of the Island's infrastructure, and has helped to attract international investors to the country in the main industry pillars of finance and tourism, as well as in the real estate, construction and the telecommunications industries.

History has shown that reliability of CUC's service is critical to the continuing growth of the Island. Grand Cayman has often been called the "envy of the Caribbean" due to the high quality of its service. Many people may be aware of reports from other countries, on "brownouts" due to inability to meet customer demand.

President and Chief Executive Officer Richard Hew says, " While the landscape in which CUC operates today is vastly different from that of 1966, some things have remained constant, particularly the Company's commitment to the economic development of the Cayman Islands and its mission to provide the Cayman community with a safe, dependable and economic electricity supply."

CUC is very proud of the level of service it has offered customers over the years. The standards in all areas of the provision of service are kept high and the company continuously seeks to improve its performance. As the Cayman Islands expands, the Company will meet the challenges ahead and it is looking forward to the next 45 years of powering Grand Cayman's success.

“ It’s pretty hard to explain the difficulty people had growing up without electricity, but, of course, when we didn’t have the service and didn’t know about the service, we had to make do. ”

[*The late Mr. W. Warren Conolly, OBE, JP, who served on CUC’s Board of Directors from 1966 to 2000*]

45 Years of Powering Grand Cayman

“ CUC means nothing without its loyal staff. They have gone beyond the call of duty over the years and should be commended for their great work. ”

[*The late Mr. W. Warren Conolly, OBE, JP, who served on CUC's Board of Directors from 1966 to 2000*]

Management's Discussion and Analysis

Letitia Lawrence
Vice President Finance & Chief Financial Officer

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or "the Company") financial statements for the twelve months ended December 31, 2010 ("Fiscal 2010"). 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 2010 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 operational, 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 ("US") dollars unless otherwise specified. The financial statements and MD&A in this report were approved by the Audit Committee.

Effective January 1, 2009, the Company changed its fiscal year end date from April 30 to December 31. The eight months ended December 31, 2008 are referred to as the 'Transitional Period'.

Corporate and Regulatory Overview

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 ("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 2010 was 7.9% (2009: 7.8%). CUC's RORB for 2010 was 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 kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2009 the base rates were increased by 2.4%. 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 US 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 licencees, establishes and enforces licence standards, enforces applicable environmental and performance standards, reviews the proposed RCAM and sets the rate adjustment

Financial Highlights

(in $ thousands except basic earnings per Class A Ordinary Share, dividends paid per Class A Ordinary Share and where otherwise indicated)

	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009	Change	Change %
Electricity sales	69,517	69,433	84	0%
Fuel factor revenues	110,579	89,376	21,203	24%
Operating revenues	180,096	158,809	21,287	13%
Total operating expenses	154,182	134,834	19,348	14%
Operating income	25,914	23,975	1,939	8%
Earnings for the period	19,879	20,013	(134)	(1%)
Basic earnings per Class A Ordinary Share	0.67	0.67	-	0%
Dividends paid per Class A Ordinary Share	0.660	0.660	-	0%
Peak load gross (MW)	102.1	97.5	4.6	5%
Net generation (millions kWh)	593.5	597.4	(3.9)	(1%)
Kilowatt-hour sales (millions kWh)	553.8	558.1	(4.3)	(1%)
System availability (%)	99.97	99.96	0.01	0%
Total customers	26,151	25,461	690	3%
Customers per employee (#)	136	129	7	5%
Sales per employee (millions kWh)	2.88	2.83	0.05	2%

factors as appropriate.

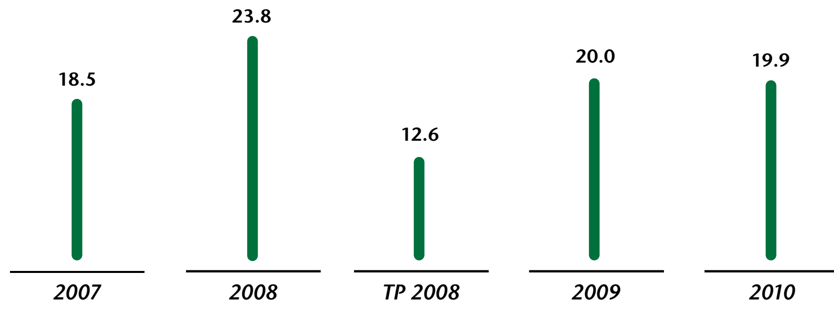
The ERA also annually reviews and approves CUC's capital investment plan ("CIP"). In February 2010 the ERA approved CUC's 2010 CIP for $21.3 million. CUC submitted its 2011 to 2015 CIP during the fourth quarter of 2010. ERA approval on the CIP was received in January 2011, while no specific projects were rejected some were conditionally approved. 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

($ millions)



TP - Transitional Period

Earnings

Net earnings for Fiscal 2010 were $19.9 million, representing a 1% or $0.1 million decrease from net earnings of $20.0 million for the twelve months ended December 31, 2009 ("Fiscal 2009"). This decrease in earnings is due to a 1% decline in kWh sales as a result of cooler than average temperatures in fourth quarter 2010, increased depreciation expense and an increase in finance charges. These increases were partially offset by lower maintenance, general and administration ("G&A") and transmission and distribution ("T&D") costs in 2010.

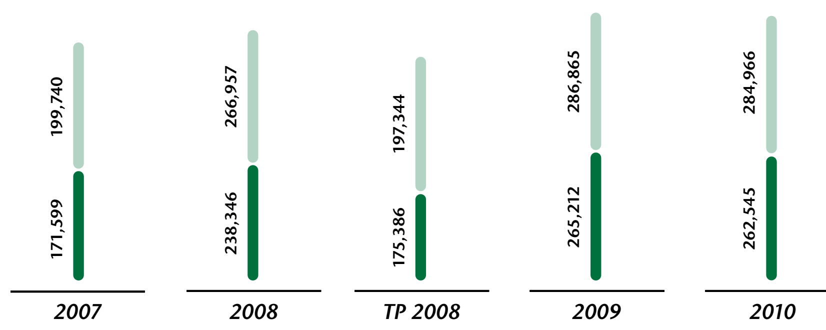
After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Fiscal 2010 were $18.9 million, or $0.67 per Class A Ordinary Share, comparable to $18.8 million, or $0.67 per Class A Ordinary Share for Fiscal 2009.

Sales

Kilowatt-hour sales for Fiscal 2010 decreased 1% to 553.8 million in comparison to 558.1 million for Fiscal 2009. Sales were negatively impacted by cool weather conditions that affected customer air conditioning load and usage in the fourth quarter. Data provided by the Cayman Islands

Residential and Commercial Sales

(Sales in thousands kWh)



TP - Transitional Period

National Weather Service indicates that the average temperature for December 2010 of 75.7 degrees Fahrenheit ("°F") was the lowest average monthly temperature seen in Grand Cayman in the last 18 years and the second lowest average temperature for December in over 30 years, the lowest having occurred in 1979. The average temperature for 2010 was 81.9°F, 0.3 degrees cooler than the average of 82.2°F for 2009.

Total customers as at December 31, 2010 were 26,151, an increase of 3% compared to 25,461 customers as at December 31, 2009. An average of 58 customers were connected per month for Fiscal 2010 as compared to an average of 79 customers per month for Fiscal 2009. The Company continues to see an increase in customer numbers but also continues to see a decline in the average customer kWh consumption.

According to reports from the Government the number of work permit holders on Island has declined substantially (13% as at September 2010). This has caused some rental properties to remain empty with an active connection. Added to this is continuing economic uncertainty which has led to increased conservation efforts, most significantly in the residential customer class.

Operating Revenues

Operating revenues increased 13%, or $21.3 million, to $180.1 million for Fiscal 2010 from $158.8 million for Fiscal 2009. Operating revenues are higher due to higher fuel factor revenues in 2010 driven by higher fuel costs. This was partially offset by a 10%, or $1.7 million, decrease in electricity sales revenue in fourth quarter 2010 driven by cooler weather.

Electricity sales revenue increased $0.1 million, in Fiscal 2010 to $69.5 million when compared to electricity sales revenues of $69.4 million for Fiscal 2009. Electricity sales revenues are higher mainly due to an increase in kWh sales in the "Other (street light, etc.)" category, increased customer numbers and the 2.4% base rate increase implemented in June 2009.

Fuel factor revenues for Fiscal 2010 totalled $110.6 million, a 24% increase from the $89.4 million in fuel factor revenues for Fiscal 2009. Fuel factor revenues increased due to an increase in the cost of fuel (see *"Power Generation"* section for further details). The average Fuel Cost Charge rate per kWh charged to consumers for Fiscal 2010 was $0.20, an 18% increase from $0.17 per kWh for Fiscal 2009. CUC passes through 100% of fuel costs to consumers on a two-month lag basis.

Operating Expenses

Total operating expenses for Fiscal 2010 increased 14% to $154.2 million from $134.8 million for Fiscal 2009. The major contributing factor to the increase in operating expenses is higher power generation expenses which are comprised predominantly of fuel costs.

Power Generation

Power generation costs for Fiscal 2010 increased $20.5 million, or 22%, to $113.2 million when compared to $92.7 million for Fiscal 2009. The increase is mainly due to higher fuel costs partially offset by a decrease in kWh generated. A new system peak load of 102.1 megawatts ("MW") was

Sales and Customer Highlights

	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009
Customers *(number)*		
Residential	**22,311**	21,701
Commercial	**3,840**	3,760
Total Customers	**26,151**	25,461
Sales *(in thousands kWh)*		
Residential	**262,545**	265,212
Commercial	**284,966**	286,865
Other	**6,240**	5,985
Total sales	**553,751**	558,062
Revenues *(in thousands of $)*		
Residential	**34,088**	34,143
Commercial	**35,077**	34,986
Other (street light, etc.)	**352**	304
Fuel factor	**110,579**	89,376
Total operating revenues	**180,096**	158,809

Operating Expenses

($ thousands)

	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009	Change	Change %
Power generation expenses	**113,214**	92,691	20,523	22%
General and administration	**8,418**	9,606	(1,188)	(12%)
Consumer service and promotion	**1,718**	1,525	193	13%
Transmission and distribution	**2,178**	2,660	(482)	(18%)
Depreciation	**20,034**	18,786	1,248	7%
Maintenance	**8,284**	9,142	(858)	(9%)
Amortization on intangible assets	**336**	424	(88)	(21%)
Total operating expenses	**154,182**	134,834	19,348	14%

achieved in June 2010 as compared to 97.5 MW which was achieved in August 2009.

The Company's average price per imperial gallon ("IG") of fuel for Fiscal 2010 increased to $3.45 from $2.77 for Fiscal 2009. The Company's average price per IG of lube for Fiscal 2010 decreased to $11.01 from $12.96 for Fiscal 2009.

Other generation expenses for Fiscal 2010 totalled $2.6 million, a $0.7 million decrease when compared to $3.3 million for Fiscal 2009. This difference is primarily due to efforts to control discretionary costs.

Diesel fuel and lube oil costs are recovered completely from consumers within the line item of fuel factor revenues. The Fuel Tracker Account (see Note 6 of the Notes to Financial Statements) is comprised of total diesel fuel and lube oil costs to be recovered from consumers.

General and Administration ("G&A")

G&A expenses for Fiscal 2010 totalled $8.4 million, a decrease of $1.2 million, or 12%, from $9.6 million for Fiscal 2009 due mainly to an increase in General Expenses Capitalised ("GEC") (see Note 1 of the Notes to Financial Statements).

The Company capitalises certain overhead costs not directly attributable to specific capital assets but which do relate to the overall capital expenditure programme.

Consumer Services ("CS")

CS expenses for Fiscal 2010 totalled $1.7 million an increase of $0.2 million, or 13%, when compared to CS expenses of $1.5 million for Fiscal 2009.

Transmission and Distribution ("T&D")

T&D expenses for Fiscal 2010 totalled $2.2 million, a decrease of $0.5 million from $2.7 million for Fiscal 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.

Power Generation Expenses

($ thousands)

	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009	Change	Change %
Fuel costs (net of deferred fuel costs)	**108,301**	86,171	22,130	26%
Lube costs (net of deferred lube costs)	**2,278**	3,205	(927)	(29%)
Other generation expenses	**2,635**	3,315	(680)	(21%)
Total power generation expenses	**113,214**	92,691	20,523	22%

Depreciation of Property, Plant and Equipment ("Depreciation")

Depreciation expenses for Fiscal 2010 totalled $20.0 million, an increase of $1.2 million from $18.8 million for Fiscal 2009. Depreciation expenses increased due to completion of various capital projects including the new 16-MW generating unit commissioned in September 2009. This increase was offset by the temporary cessation of depreciation on a 16-MW unit in October 2010. The 16-MW unit was taken out of service due to an over speed failure. It is estimated that repairs will be completed in April 2011. The cost of the repairs are covered by the Company's insurance policy subject to the deductible (see *"Insurance - Terms & Coverage"* in the *"Business Risks"* section of the MD&A for greater detail).

In accordance with the Licences, when an asset is impaired or disposed of, before the end of original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with rate regulated accounting and differs from the GAAP treatment of a loss being recognised on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset.

This amount within accumulated depreciation will be depreciated for the remaining life of the asset when the unit is placed back into service. In the case of the 16-MW unit, which was taken out of service in October 2010, insurance proceeds will be applied to accumulated depreciation and as the asset is repaired the costs incurred will be capitalised.

Maintenance

Maintenance expenses for Fiscal 2010 totalled $8.3 million, a decrease of $0.8 million from $9.1 million for Fiscal 2009. This decrease was partially due to the Maintenance Division's focus on capital upgrade and asset replacement projects in 2010.

Amortization

Amortization of intangible assets for Fiscal 2010 totalled $0.3 million, a decrease of $0.1 million, or 25%, from $0.4 million for Fiscal 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 licence negotiations. The licence negotiations ceased in 2008 and the costs associated with the negotiations are being amortized over 20 years on a straight-line basis.

Other Income and Expenses

Under the T&D Licence there is a provision for an Allowance for Funds Used During Construction ("AFUDC"). This capitalisation of the 'Financing Cost' is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for 2010 is 8.75% as agreed with the ERA in accordance with the T&D Licence and will be reviewed annually.

The AFUDC amount for Fiscal 2010 totalled $3.0 million a $1.7 million decrease when compared to $4.7 million for Fiscal 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 US dollars at the exchange rate prevailing on the Balance Sheet date. Revenue and expense items denominated

Other Income and Expenses

($ thousands)

	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009	Change	Change %
Total interest costs	**(12,122)**	(11,739)	(383)	3%
AFUDC	**2,979**	4,668	(1,689)	(36%)
Total finance charges	**(9,143)**	(7,071)	(2,072)	29%
Foreign exchange gains	**1,785**	1,852	(67)	(4%)
Other income	**1,323**	1,257	66	5%
Total net other expenses	**(6,035)**	(3,962)	(2,073)	52%

in foreign currencies are translated into US dollars at the exchange rate prevailing on the transaction date. Foreign exchange gains totalled $1.8 million for Fiscal 2010 a $0.1 million or 4% decrease when compared to $1.9 million for Fiscal 2009.

Other Income:

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 $1.3 million for Fiscal 2010 comparable to $1.3 million for Fiscal 2009.

The Economy

The Cayman Islands have two main industries; financial services and tourism. These industries were not immune to the effect of the recession being experienced worldwide. In 2010 the recession that began to impact the Cayman Islands in 2009 continued. A fall in Gross Domestic Product ("GDP") was reported for 2009 (System of National Accounts Report 2009; released November 2010) at negative 4.7% as compared to 1.2% in 2008. The Government's 2010 Third Quarter Economic Report released in January 2011 indicates that the Cayman Islands 2010 GDP contracted at an annualised rate of negative 5.8% for the first three quarters of 2010. The Government's 2010 projection for GDP growth is presented as a range of negative 3.5% to negative 4.5%.This projection was attributed to the fact that 'lackluster economic recovery persists in major source markets which continue to impact the domestic economy'. Representative of this statement is the performance of the financial industry in 2010 (see the *"Key Indicators for the Financial Services Industry"* table below).

Another indicator for future growth is the value of building permits; as at September 2010 these amounted to $201.1 million, a 43.7% decline when compared to the same period last year. The value of project approvals also declined, decreasing 39.6%.

The estimated square footage of projects slated for completion in 2011 is 703,125. Compass Point, a dive resort located in East End, and San Sebastian, a residential community located in South Sound, are both estimated at 50,000 square-feet each. The Government Administration Building was completed in late 2010 and is slated to be occupied in the first quarter of 2011. Camana Bay, a planned community, will rest on approximately 500 acres of land when completed. The next scheduled phase includes an estimated additional 25,000 square feet of commercial space to be completed in December 2011. Some of this new office space is expected to displace older offices on the Island. Building permits, project approvals and the progress of approved projects are indicators of future expansion and are relevant to the Company's projection process for future generation.

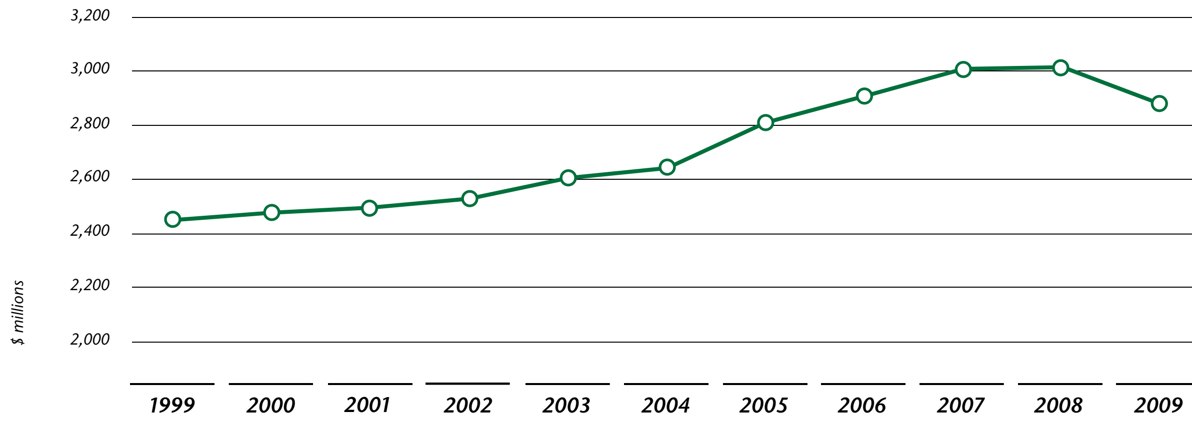
The Government's fiscal balance was in deficit as at September 2010 of $25.7 million as compared to a deficit of $148.8 million for the same period in the prior year. The reduction in the deficit is attributed to a reduction in capital expenditure and increased revenues. Total revenues for the Government rose to $495.5 million, an increase of 12.2%. This increase is in part attributable to revenue enhancing measures, which increased the yield on fees and domestic transactions as well as the fees on international trade and related transactions. Other factors contributing to the rise in revenues was increased sale of goods and services.

Total Government expenditure declined for the first three quarters of 2010. Capital expenditure and net spending reduced by 40.3% while recurrent expenditure declined by 2.8%. Interest costs increased by $10.8 million in September 2010 when compared to the same period for the prior year. The expansion in borrowings between September

Key Indicators for the Financial Services Industry

	As at December 2010	As at December 2009	As at December 2008	As at December 2007	As at December 2006
Bank licences	245	266	278	281	291
Registered companies	91,206	92,867	93,693	87,109	83,532
Mutual funds	9,438	9,523	9,870	9,413	8,134
Mutual fund administrators	134	141	155	152	153
Captive insurance companies	738	780	777	765	740

Cayman Islands Gross Domestic Product at Constant 2007 Prices



2009 and September 2010 resulted in an increase in the Government's outstanding debt. The debt grew by 17.8% or $89.5 million as compared to the prior year. This movement increased the debt service to current revenue ratio to 8.9% from 7.3%. The interest payments to current revenue ratio stood at 4.9% compared to 3.1% as at September 2009.

Government spending impacts the economy in multiple areas, the second largest area of expenditure reduction by the Government for 2010 was personnel costs, which impacts residential consumption. Similarly, projects that are in the pipeline such as the proposed berthing facility would affect tourism and commercial growth.

The tourist demographic is largely comprised of visitors from the US. In 2010, 80% of air arrivals to the country were citizens of the US. As such the US economy largely impacts that of the Cayman Islands. Air arrivals in 2010 were up 6% from 2009 air arrivals and cruise arrivals were up 5.1% from 2009.

In an effort to ensure growth and continuity in the tourism industry the Government has increased its focus on Canadian visitors. Beginning in fall 2010, WestJet, a Calgary-based airline, began offering non-stop service to Grand Cayman. Air arrivals from Canada increased 13% in 2010 when compared to 2009. Air arrivals have a direct impact on the Company's sales growth as these visitors are stay-over visitors who occupy the hotels. Cruise arrivals have an indirect impact

The 185,000 square-foot Government Administration Building in George Town was completed in late 2010.

Photo by DRCL

The next phase of the 500-acre Camana Bay development includes an estimated additional 25,000 square feet of commercial space.

as they affect the opening hours of the establishments operating for that market.

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. At the close of 2009 there were 23,531 work permits in effect in the Cayman Islands. As at the end of September 2010 that number has dropped to 20,432. Government attributes this decrease to "the sharp slowdown in construction, the largest employer of foreign labour".

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

Tourist Arrivals to the Cayman Islands

(for the twelve months ending December 31)

	2010	2009	2008	2007	2006
By air	**288,272**	271,958	302,879	291,503	267,258
By sea	**1,597,838**	1,520,372	1,553,053	1,715,666	1,923,597
Total	**1,886,110**	1,792,330	1,855,932	2,007,169	2,190,855

Liquidity and Capital Resources

The table *"Summary of Cash Flow"* below outlines the summary of cash flow.

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for Fiscal 2010, was $41.9 million, a decrease of $0.9 million from $42.8 million for Fiscal 2009. This decrease is primarily due to higher 2009 earnings and a decrease in non-cash working capital balances.

Investing Activities:

Cash used in investing activities in Fiscal 2010 totalled $21.4 million, a decrease of $21.2 million from $42.7 for Fiscal 2009. This decrease is due to a reduction in capital related expenditures. In 2009, $19.0 million of capital expenditure related to the 2009 generation expansion project.

Financing Activities:

Cash used in financing activities totalled $23.0 million for Fiscal 2010 as compared to $3.3 million received from financing activities for Fiscal 2009.

The Company received no proceeds from long-term debt in 2010 as compared to long-term debt proceeds of $21.0 million, net of principal and bank overdraft repayments, in 2009.

Transactions with Related Parties

Miscellaneous receivables from Fortis Turks & Caicos, also a subsidiary of Fortis Inc. totalling $0.04 million were outstanding at December 31, 2010 ($0.09 million December 31, 2009). Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totalling $0.03 million were outstanding at December 31, 2010 ($0.02 million as at December 31, 2009). Miscellaneous receivables from management totalling $0.001 million were outstanding at December 31, 2010 ($0.001 million as at December 31, 2009).

Summary of Cash Flow

($ thousands)

	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009	Change	Change %
Beginning cash	4,927	1,431	3,496	244%
Cash provided by/(used in):				
Operating activities	41,896	42,845	(949)	(2%)
Investing activities	(21,433)	(42,665)	21,232	(50%)
Financing activities	(23,027)	3,316	(26,343)	(794%)
Ending cash	2,363	4,927	(2,564)	(52%)

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at December 31, 2010, are outlined in the table *"Contractual Obligations"*.

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 approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2011 - 24.7. The contract contains an automatic renewal clause for the years 2010 through to 2012, effective April 2010 the 2011 portion of the contract was considered automatically renewed. Should any party choose to terminate within that two-year period notice must be given a minimum of one year in advance of the desired termination date.

Financial Position

The table *"Significant Changes in Balance Sheets"* is a summary of significant changes to the Company's balance sheet from December 31, 2009 to December 31, 2010.

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.

Contractual Obligations

($ millions)

	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	200.1	21.8	27.7	36.4	114.2
Defined benefit pension	0.5	0.5	-	-	-
Total	200.6	22.3	27.7	36.4	114.2

Significant Changes in Balance Sheets

(from December 31, 2009 to December 31, 2010)

Balance Sheet Account	Increase/ (Decrease) *($ millions)*	Explanation
Cash	(2.5)	Decrease due to cash used in investing activities of $21.4 million and cash utilised in financing activities of $23.0 million, partially offset by cash provided by operating activities of $41.9 million.
Other receivable - Insurance	2.2	Increase due to insurance receivable of $2.1 million in relation to over speed failure on a 16 MW unit.
Property, plant and equipment	(1.1)	Net decrease is comprised of PPE purchases of (1) $21.2 million and (2) depreciation expense of $20.0 million and impairment of $2.2 million in relation to over speed on a 16-MW unit (see Note 8 of the Notes to Financial Statements).
Accounts payable and acrued expenses	2.5	Change mainly attributable to increase in fuel costs.
Short-term debt	9.0	Increase is a net result of draw down of $9.0 million againts RBC Capital Expenditure line of credit.
Current portion of long-term debt	1.5	Increase due to portions on long-term debt classified as current in December 2010.
Long-term debt	(15.4)	Decrease due to principal repayments made in June and portions allocated to current debt.
Share premium	1.6	The Company issued 187,714 shares through its share purchase plans.

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% of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at December 31, 2010, the Company was in compliance with all debt covenants.

The Company's capital structure is presented in the *"Capital Structure"* table below.

The change in the Company's capital structure at December 31, 2010 is due to a net reduction in total debt. In June 2010, the Company repaid $14.0 million on various senior unsecured notes and borrowed an additional $9.0 million against the Royal Bank of Canada ("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 2010, S&P affirmed the Company's 'A' credit rating but maintained its negative outlook based on a weak Cayman Islands 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 Islands economy continues to demonstrate subdued or negative growth the rating could be lowered.

Capital Structure

	December 31, 2010 *($ millions)*	**%**	December 31, 2009 *($ millions)*	%
Total debt	**195.3**	**53**	200.2	54
Shareholder's equity	**173.8**	**47**	171.9	46
Total	**369.1**	**100**	372.1	100

Credit Facilities

	($ millions)
Corporate credit card line	0.3
Letters of credit	0.6
Operating, revolving line of credit	7.5
Catastrophe standby loan	7.5
Demand loan facility - interim funding of capital expenditures	17.0
Total	32.9

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 RBC (see the *"Credit Facilities"* table below). Of the total, $15.0 million was available at December 31, 2010.

Capital Expenditures

Capital expenditures for Fiscal 2010 were $21.4 million, a $21.3 million, or 50% decrease from $42.7 million in capital expenditures for Fiscal 2009. The capital expenditures for Fiscal 2010 primarily relate to:

- Distribution system extension and upgrades - $10.6 million.
- Transmission system expansion and upgrades - 69 kilovolt ("kV") line extension to close the Frank Sound loop - $1.4 million.
- G36 piston, liner and transformer upgrade - $1.9 million
- Centaur 50 upgrade - $0.7 million
- G33 turbo charger, over speed and fuel pump upgrade - $0.4 million
- G14 piston, turbocharger and exhaust valve upgrade - $0.7 million
- Mobile workforce management - $0.19 million
- Inventory that has met the criteria of Property, Plant and Equipment ("PP&E") in accordance with Canadian Institute of Chartered Accountants ("CICA") 3031 has been added to work in progress and is included in Capital Expenditure. For the twelve months ended December 31, 2010, a decrease of $0.13 million was allocated to Distribution and $0.02 million was allocated to Transmission, totalling a decrease of $0.15 million reallocated

from Inventories to capital work in progress.
» AFUDC of $3.0 million was capitalised in the twelve months ended December 31, 2010.

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 December 31, 2010.

Business Risks

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

Operational Risks

Operational risks are those risks normally inherent in the operation of generating, transmission and distribution facilities. The Company's facilities are subject to the risk of equipment failure due to deterioration of the asset from use or age, latent defects and design or operator error, among other things. These risks could lead to longer-than-forecast equipment downtimes for maintenance and repair, disruptions of power generation, customer service interruptions, could result in injury to employees and the public. Accordingly, to ensure the continued performance of the physical assets, the Company determines expenditures that must be made to maintain and replace the assets.

The Company continually develops capital expenditure, safety management and risk controls programmes and assesses current and future operating and maintenance expenses that will be incurred in the ongoing operation of its systems. The Company also has an insurance programme that provides coverage for business interruption, liability and property damage, although the coverage offered by this programme is limited (see the *"Insurance - Terms and Coverage"* section for discussion of insurance terms and coverage). In the event of a large uninsurable loss, the Company would apply to the ERA for recovery of these costs through higher rates. However, there is no assurance that the ERA will approve any such application (see the *"Regulation"* section for discussion of regulatory risk).

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.

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

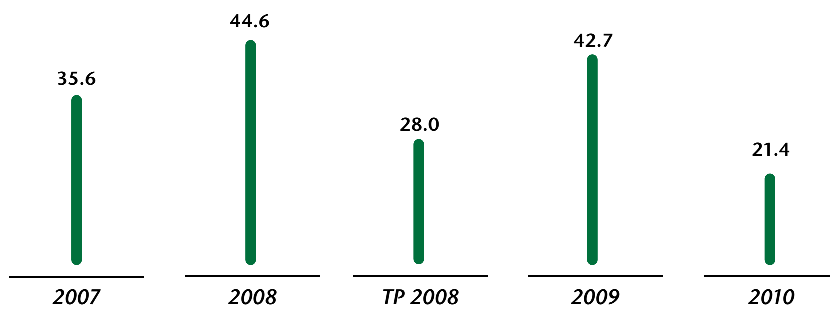
Capital Expenditures

($ millions)

	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009	Change	Change %
Transmission	**1.5**	3.7	(2.2)	(60%)
Distribution	**10.6**	8.7	1.9	22%
Generation	**8.4**	29.2	(20.8)	(71%)
Other	**0.9**	1.1	(0.2)	(18%)
Total	**21.4**	42.7	(21.3)	(50%)

Capital Expenditures

($ millions)



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.

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 Systems ("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").

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 $100.0 million in property and machinery breakdown insurance and business interruption insurance per annum with a 24-month indemnity period and a 45-day deductible. All T&D assets outside of 1,000 feet from the boundaries of the main Power Plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of $100.0 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 $1.0 million and maximum deductible of $4.0 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.

Transition to New Accounting Standards

Under Canadian securities regulation, CUC is required to adopt International Financial Reporting Standards ("IFRS") effective January 1, 2012. In the absence of an accounting standard for rate-regulated activities, the adoption of IFRS could result in significant volatility in the Company's earnings from those otherwise recognised under US GAAP or previous Canadian GAAP. CUC is considering various options that would allow the Company to apply US GAAP for the purpose of meeting financial and regulatory reporting requirements in Canada effective January 1, 2012. For a full discussion of the Company's IFRS response see section on *"Future Accounting Pronouncements"*.

Defined Benefit Pension Plan

The Company maintains a defined benefit pension plan. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The assumed long-term rate of return on pension plan assets, for the purposes of estimating pension expense for 2011, is 5%. This compares to assumed long-term rates of return of 5% used during 2010. The gain on pension plan assets during 2009 was 22%.

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 2011 is 5.5% compared to the discount rate assumed during 2010 of 6.0%.

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 ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises would be replaced by IFRS for fiscal years beginning on or after January 1, 2011.

IFRS does not currently provide guidance with respect to accounting for rate-regulated activities. In September 2010 the International Accounting Standards Board ("IASB") confirmed its view that matters associated with rate-regulated accounting could not be resolved quickly. The IASB decided, therefore, to defer any further discussion on accounting for rate-regulated activities until public consultation on its future agenda is held, and views as to what form, if any, a future project might take to address accounting for the effects of rate-regulated activities are obtained. Without specific guidance on accounting for rate-regulated activities by the IASB, the adoption of IFRS could result in significant volatility in the Company's earnings from those otherwise recognised under Canadian GAAP.

In view of delays in resolving issues surrounding rate regulated activities within IFRS, the AcSB has provided qualifying entities with an option to defer their changeover to IFRS by one year. The necessary amendments to the CICA Handbook were published by the AcSB in October 2010.

While the IFRS Conversion Project had proceeded as planned in preparation for the adoption of IFRS on January 1, 2011, CUC qualifies for the optional one year deferral and, therefore, will continue to prepare financial statements in accordance with Part V of the CICA Handbook for all interim and annual periods ending on or before December 31, 2011.

Due to the continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the IASB, Fortis Inc. expects to prepare its consolidated financial statements in accordance with US GAAP for all interim and annual periods beginning on or after January 1, 2012. Canadian rules allow a reporting issuer to prepare and file its financial statements in accordance with US GAAP by qualifying as a US Securities and Exchange Commission ("SEC") registrant.

CUC is considering an application for exemptive relief under the Canadian Securities Administrators ("CSA") National Instrument 52-107 for permission to qualify to apply US GAAP for the purpose of meeting financial and regulatory reporting requirements in Canada effective January 1, 2012. Should the Company not be successful in the application for exemptive relief, CUC will be required to adopt IFRS effective January 1, 2012.

The Company anticipates a significant increase in disclosure resulting from the adoption of IFRS. The Company is identifying and assessing the impact of the additional disclosure requirements, as well as implementing systems changes that will be necessary to compile the required disclosures. Independent expertise has been engaged to assist in the process.

Differences between IFRS and Canadian GAAP, in addition to those referenced further under "Accounting Policy Impacts and Decisions", may continue to be identified based on further detailed analyses by the Company, and other changes in IFRS prior to the Company's conversion to IFRS in 2012.

IFRS Conversion Project:

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

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

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

Phase Three: Implementation and Review has commenced and involves the execution of changes to information systems and business processes; completion of formal authorization processes to approve recommended accounting policy changes; and further training programmes across the Company's finance and other affected areas, as necessary. It will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements and reconciliations; embedding of IFRS into the Company's business processes; and audit committee approval of IFRS-compliant interim and annual financial statements for 2012.

Accounting Policy Impacts and Decisions:

The Company has completed its initial assessment of the impacts of adopting IFRS based on the standards as they currently exist, and has identified the following as having the greatest potential to impact the Company's accounting policies, financial reporting and information systems requirements upon conversion to IFRS.

(a) *Property Plant and Equipment:*

IFRS and Canadian GAAP contain the same basic principles of accounting for PP&E; however, differences in application do exist For example, capitalisation of directly attributable costs in accordance with IAS ("International Accounting Standards") 16, Property, Plant and Equipment ("IAS 16") may require measurement of an item of PP&E upon initial recognition to include or exclude certain previously recognised amounts under Canadian GAAP. Specifically, there may be changes in accounting for:

i. the amount of capitalised overheads;
ii. the capitalisation of major inspections that were previously expensed under Canadian GAAP;
iii. the capitalisation of depreciation for which the future economic benefits of an asset are absorbed in the production of another asset; and
iv. the capitalisation of borrowing costs in accordance with IAS 23, Borrowing Costs.

IAS 16 also requires an allocation of the amount initially recognised in respect of an item of PP&E to its significant parts and the depreciation of each such part separately. This method of allocating PP&E may result in an increase in the number of component parts that are recorded and depreciated separately and, as a result, may impact the calculation of depreciation expense.

Upon transition to IFRS, an entity has the elective option to reset the cost of its PP&E based on fair value in accordance with the provisions of IFRS 1, and to use either the cost model or the revaluation model to measure its PP&E subsequent to transition. Upon transition to IFRS on January 1, 2012, the Company currently intends to use the cost model to measure all PP&E subsequent to transition.

Under rate-regulated accounting, upon disposal of an asset, the Company is able to recognise in accumulated depreciation the remaining book value (if any) of the asset being disposed, and to continue depreciating that asset based on its original depreciation schedule. Gains or losses are not currently recognised on the Statement of Earnings. Upon transition to IFRS, any gain or loss resulting from the disposal of PP&E will be immediately recognised in the Company's earnings.

(b) *Accounting for Rate-Regulated Activities:*

IFRS does not currently provide specific guidance with respect to accounting for rate-regulated activities. Without specific guidance on accounting for rate-regulated activities by the IASB, the adoption of IFRS could result in significant volatility in the Company's earnings from those otherwise recognised under Canadian GAAP.

(c) *Provisions and Contingent Liabilities:*

IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37") requires a provision to be recognised when: (i) there is a present obligation as a result of a past transaction or event; (ii) it is probable that an outflow of

resources will be required to settle the obligation; and (iii) a reliable estimate can be made of the obligation. The threshold for recognition of a provision under Canadian GAAP is higher than under IFRS. It is possible, therefore, that some contingent liabilities which would not have been recognised under Canadian GAAP may meet the criteria for recognition as a provision under IFRS. An IASB project has been ongoing since 2005 and may result in a new IFRS to replace IAS 37. Discussions continue regarding the amendments to the standard with a tentative date of June 2011 for the release of an exposure draft.

(d) *Employee Benefits:*

IAS 19, Employee Benefits ("IAS 19") requires past service costs associated with defined benefit plans to be expensed on an accelerated basis with vested past service costs to be expensed immediately and unvested past service costs to be expensed on a straight line basis until the benefits become vested. In addition, actuarial gains and losses are permitted to be recognised directly in equity rather than through earnings, and IFRS 1 also provides an option to recognise immediately in retained earnings all cumulative actuarial gains and losses existing as at the date of transition to IFRS.

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

The Company maintains a defined benefit pension plan and supplementary and other post-employment benefit plans which will be subject to different accounting treatment under IFRS versus Canadian GAAP.

(e) *Impairment of Assets:*

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

The Company is continuing to assess the impact of adopting IAS 36.

(f) *IFRS 1, First-Time Adoption of IFRS:*

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

The Company has completed an analysis of IFRS 1. While preliminary decisions have been made with respect to the elective exemptions available upon transition, final decisions cannot be made at this time pending further certainty as to a final IFRS standard on accounting for rate regulated activities.

(g) *Internal Controls over Financial Reporting and Disclosure:*

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

The IASB has a number of on-going projects on its agenda that may result in changes to existing IFRS prior to

the Company's conversion to IFRS in 2012. The Company continues to monitor these projects and the impact that any resulting IFRS changes may have on its accounting policies, financial position or results of operations under IFRS for 2012 and beyond.

Critical Accounting Estimates

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

Revenue Recognition

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2010, the amount of unbilled revenue recorded in Accounts Receivable - Trade was $4.4 million (December 31, 2009: $4.9 million). Consumers are billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue.

Kilowatt-hour Sales

Kilowatt-hour sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. The kWh accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for electricity consumption will result in adjustments of kWh sales statistics in the periods they become known when actual results differ from the estimates. As at December 31, 2010, the amount of estimated kWh sales was 36.2 million kWh. As bills are generated at the beginning of each month it is necessary to accrue for kWh for accurate reporting.

Employee Future Benefits

The Company's defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation. There are currently two participants in the Company's defined benefit pension plan. The main assumptions utilised by Management in determining pension expense and obligations were the discount rate for the accrued benefit obligation, pension commencement date, inflation and the expected rate of return on plan assets. As at December 31, 2010, the Company had an accrued benefit liability of $0.1 million (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 December 31, 2010, the net book value of the Company's PP&E was $352.3 million compared to $353.4 million as at December 31, 2009, decreasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the twelve months ended December 31, 2010 was $20.0 million and $18.8 million for the twelve months ended December 31, 2009. Due to the value of the Company's PP&E changes in depreciation rates can have a significant impact on the Company's depreciation expense.

Selected Annual Financial Information

The table *"Selected Annual Financial Information"* shows the Annual Financial Information for the financial years ended December 31, 2010, 2009 and 2008.

2009 Fourth Quarter Results

Net earnings for the three months ended December 31, 2010 ("Fourth Quarter 2010") were $4.7 million, representing a decrease of 20% or $1.2 million from net earnings of $5.9 million for the three months ended December 31, 2009 ("Fourth Quarter 2009"). This decrease in earnings

is primarily due to a 10% kWh sales decline quarter over quarter. Fourth Quarter 2010 was negatively impacted by cooler than average temperatures.

Kilowatt-hour sales for the Fourth Quarter 2010 decreased 10% to 127.8 million in comparison to 142.4 million for the Fourth Quarter 2009. Sales were negatively impacted by cool weather conditions that affected customer air conditioning load and usage. The average temperature for the Fourth Quarter 2010 was 2.5°F lower than the average temperature experienced for the Fourth Quarter 2009. The average temperature for December 2010 of 75.7°F was the lowest average monthly temperature seen in Grand Cayman in the last 18 years and the second lowest average temperature for December in 30 years, the lowest having occurred in 1973. The Company receives all weather data from the National Weather Service.

Total operating expenses for the Fourth Quarter 2010 increased 13% to $41.4 million from $36.8 million for the Fourth Quarter 2009. The major contributing factor to the increase in operating expenses is higher power generation expenses which are comprised predominantly of fuel costs.

Cash flow provided by operations, after working capital adjustments, for the Fourth Quarter 2010, was $8.8 million, a decrease of $2.8 million from $11.6 million for the Fourth Quarter 2009. Cash used in investing activities totalled $5.5 million for the Fourth Quarter 2010, a decrease of $1.0 million from $6.5 million for the Fourth Quarter 2009. This decrease is due to a reduction in capital related expenditures. Cash used in financing activities totalled $4.9 million for the Fourth Quarter 2010 an increase of $0.3 million from $4.6 million used for the Fourth Quarter 2009.

Capital expenditures for the Fourth Quarter 2010 were $5.4 million, a $1.1 million, or 17% decrease from $6.5 million in capital expenditures for the Fourth Quarter 2009.

Quarterly Results

The table *"Quarterly Results"* on page 28 summarises unaudited quarterly information for each of the eight quarters ended March 31, 2009 through December 31, 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.

December 2010/December 2009

Net earnings for the Fourth Quarter 2010 were $4.7 million, representing a decrease of 20% or $1.2 million from net earnings of $5.9 million for the Fourth Quarter 2009. This decrease in earnings is primarily due to a 10% kWh sales decline quarter over quarter. Fourth Quarter 2010 was negatively impacted by cooler than average temperatures.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2010 were $4.0 million, or $0.15 per Class A Ordinary Share,

Selected Annual Financial Information

($ thousands)

	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009	Eight months ended December 31, 2008
Operating revenues	**180,096**	158,809	150,348
Net earnings	**19,879**	20,013	12,599
Net earnings applicable to common shares	**18,926**	18,831	11,894
Total assets	**398,964**	399,546	373,987
Debt	**195,290**	200,159	174,643
Preference shares	**250**	250	250
Total shareholder's equity	**173,841**	171,942	169,994
Earnings per Class A Ordinary Share	**0.67**	0.67	0.45
Diluted earnings per Class A Ordinary Share	**0.67**	0.67	0.45
Dividends declared per Class A Ordinary Share	**0.660**	0.660	0.495
Dividends declared per Class B Preference Shares included bonus	**3.81**	4.73	2.82

as compared to $5.5 million, or $0.20 per Class A Ordinary Share for the Fourth Quarter 2009. In 2009 an accrual was made for Class B Preference Share ("Class B") dividends to align the payment with the calendar year end. The accrual in 2009 related to a portion of the Class B participating dividend. In 2010 the participating dividend for Class B shareholders is accrued in its entirety in the fourth quarter.

September 2010/September 2009

Net earnings for the three months ended September 30, 2010 ("Third Quarter 2010") were $6.6 million, comparable to net earnings for the three months ended September 30, 2009 ("Third Quarter 2009"). Positive factors such as lower maintenance, G&A and T&D expenses were offset by lower kWh sales and 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 Third Quarter 2010 were $6.5 million, or $0.23 per Class A Ordinary Share, as compared to $6.1 million or $0.21 per Class A Ordinary Share for the Third Quarter 2009. The preference share participating dividend was recorded in the Third Quarter for fiscal year 2009; this timing was in keeping with the payout date for previous financial years prior to the year-end change.

June 2010/June 2009

Net earnings for the three months ended June 30, 2010 ("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 ("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, 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 three months ended March 31, 2010 ("First Quarter 2010") of $2.46 million were comparable to net earnings of $2.44 million for the three months ended March 31, 2009 ("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.

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 ("DC&P"), to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during Fiscal 2010; and information required to be disclosed by the

Quarterly Results

($ thousands except basic and diluted earnings per Class A Ordinary Share)

	Operating Revenue	Net Earnings	Income applicable to Class Ordinary A Shares	Earnings per Class A Ordinary Share	Diluted earnings per Class A Ordinary Share
December 31, 2010	47,442	4,666	4,048	0.15	0.15
September 30, 2010	49,095	6,568	6,455	0.23	0.23
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	5,893	5,528	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

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. Based on the evaluation performed over disclosure controls and procedures, it was concluded that the DC&P of CUC is adequately designed and operating effectively as of December 31, 2010.

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 ICFR 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). Based on the assessment, it was concluded that CUC's internal controls over financial reporting are adequately designed and operating effectively as of December 31, 2010.

There has been no change in the Company's ICFR that occurred during the period beginning on October 1, 2010 and ended on December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Subsequent Events

On Friday, January 28, 2011, equipment associated with an MaK 9-MW diesel generating unit was damaged due to an explosion during a start process. That incident resulted in injuries to two employees, one of whom remains in critical condition. Damage to the generating unit was contained to peripheral equipment. The investigation into this incident is ongoing.

On Saturday, February 5, 2011, CUC experienced a major mechanical failure of a Mirrlees 7.59-MW diesel generating unit. There were no personnel injuries and damage was contained to the single generating unit. This unit was installed in 1991 and was scheduled for retirement in 2012.

While the Company believes that losses excluding deductibles from both incidents, including the cost of temporary generation and business interruption are covered by the Company's comprehensive insurance policies, delays in realising insurance payouts could result in significant receivables to the Company. The Company received initial payments of $0.8 million on its 16-MW over speed failure insurance claim in January 2011.

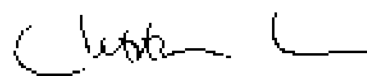
Outlook

In November 2010, the Company filed its 2011 to 2015 Capital Investment Plan ("CIP") totalling approximately $219.0 million. The 2011 to 2015 CIP has been prepared upon the basis of the Company's application to the ERA for a delay in the retirement of two generating units and any new generation installation until there is more certainty in growth forecasts. In January 2011 the ERA approved the Company's application to delay retirement of the two generating units and also provided general approval of the $134.0 million of proposed non-generation installation expenditures in the CIP. The remaining $85.0 million of the CIP relates to new generation installation which would be subject to a competitive solicitation process with the next generating unit scheduled for installation in 2014. The general approval of non-generation expenditures is subject to CUC providing additional information related to certain planned projects. Final approval of the CIP is expected during the first quarter of 2011.

Outstanding Share Data

At March 7, 2011 the Company had issued and outstanding 28,464,853 Ordinary Shares and 250,000 9% cumulative Participating Class B Preference Shares.

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



Letitia T. Lawrence
Vice President Finance & Chief Financial Officer

March 7, 2011

Management's Responsibility for Financial Reporting

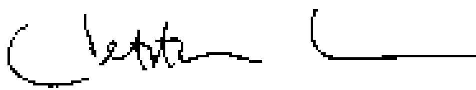
The accompanying Financial Statements of Caribbean Utilities Company, Ltd. and all information in the 2010 Annual Report have been prepared by management, who are responsible for the integrity of the information presented, including the amounts that must of necessity be based on estimates and informed judgements. These Financial Statements were prepared in accordance with accounting principles generally accepted in Canada. Financial information contained elsewhere in the 2010 Annual Report is consistent with that in the Financial Statements.

In meeting its responsibility for the reliability and integrity of the Financial Statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure transactions are properly authorised and recorded, assets are safeguarded and liabilities are recognised. The Company focuses on the need for training of qualified and professional staff, effective communication between management and staff and management guidelines and policies.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee that is composed entirely of outside directors. The Audit Committee meets with the external auditors, with and without management present, to discuss the results of the audit, the adequacy of the internal accounting controls and the quality and integrity of financial reporting. The Audit Committee reviews the Company's annual Financial Statements before the statements are recommended to the Board of Directors for approval. The external auditors have full and free access to the Audit Committee.

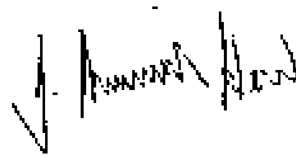
The Audit Committee has the duty to review the adoption of, and changes in, accounting principles and practices which have a material effect on the Financial Statements, to review financial reports requiring Board approval prior to submission to securities commissions or other regulatory authorities, to assess and review management's judgments material to reported financial information and to review the external auditors' fees.

The Financial Statements and Management's Discussion and Analysis contained in the 2010 Annual Report were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of the Company. Ernst & Young, independent auditors appointed by the shareholders of the Company upon recommendation of the Audit Committee, have performed an audit of the Financial Statements and their report follows.



Letitia T. Lawrence
Vice President Finance & Chief Financial Officer

Caribbean Utilities Company, Ltd.



J.F. Richard Hew
President & Chief Executive Officer

Caribbean Utilities Company, Ltd.

Auditors' Report

To the Shareholders of Caribbean Utilities Company, Ltd.

We have audited the accompanying financial statements of Caribbean Utilities Company, Ltd., which comprise the balance sheets as at December 31, 2010 and 2009, the statements of earnings, comprehensive income, retained earnings and cash flows for the periods then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Caribbean Utilities Company, Ltd. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young Ltd.
Grand Cayman, Cayman Islands

March 7, 2011

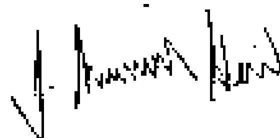
Balance Sheets

(Expressed in thousands of United States dollars)

	Note	As at December 31, 2010 $	As at December 31, 2009 $
Assets			
Current Assets			
Cash and cash equivalents		**2,363**	4,927
Accounts receivable	*4*	**11,917**	11,571
Other receivable - Insurance	*5*	**2,188**	-
Regulatory assets	*6*	**21,683**	21,996
Inventories	*7*	**3,074**	2,702
Prepayments		**2,462**	2,112
		43,687	43,308
Property, plant and equipment	*8*	**352,305**	353,359
Other assets		**173**	36
Intangible assets	*9*	**2,799**	2,843
Total Assets		**398,964**	399,546
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued expenses		**24,985**	22,510
Regulatory liabilities	*6*	**670**	972
Short-term debt	*10*	**17,000**	8,000
Current portion of long-term debt		**15,500**	14,000
Consumers' deposits and advances for construction		**4,178**	3,963
		62,333	49,445
Long-term debt		**162,790**	178,159
Total Liabilities		**225,123**	227,604
Shareholders' Equity			
Share capital	*13*	**1,944**	1,933
Share premium	*13*	**75,355**	73,729
Contributed surplus	*14*	**372**	325
Retained earnings		**96,170**	95,955
Total Shareholders' Equity		**173,841**	171,942
Total Liabilities and Shareholders' Equity		**398,964**	399,546

See accompanying Notes to Financial Statements

Approved on behalf of the Board of directors by:



David E. Ritch, OBE, JP
Director

J.F. Richard Hew
Director

Statements of Earnings and Comprehensive Income

(Expressed in thousands of United States dollars except Basic and Diluted earnings per Class A Ordinary Share)

	Note	Twelve months ended December 31, 2010 $	Twelve months ended December 31, 2009 *(Note 3)* $
Operating Revenues			
Electricity sales		**69,517**	69,433
Fuel factor		**110,579**	89,376
Total Operating Revenues		**180,096**	158,809
Operating Expenses			
Power generation		**113,214**	92,691
General and administration		**8,418**	9,606
Consumer services		**1,718**	1,525
Transmission and distribution		**2,178**	2,660
Depreciation of property, plant and equipment		**20,034**	18,786
Maintenance		**8,284**	9,142
Amortization of intangible assets		**336**	424
Total Operating Expenses		**154,182**	134,834
Operating Income		**25,914**	23,975
Other (Expenses)/Income			
Finance charges	*19*	**(9,143)**	(7,071)
Foreign exchange gain	*18*	**1,785**	1,852
Other income		**1,323**	1,257
Total Net Other (Expenses)		**(6,035)**	(3,962)
Earnings and Comprehensive Income for the Period		**19,879**	20,013
Preference dividends paid on Class B Shares		**(953)**	(1,182)
Earnings on Class A Ordinary Shares		**18,926**	18,831
Weighted average number of Class A Ordinary Shares issued and fully paid	*15*	**28,352**	28,160
Basic Earnings per Class A Ordinary Share	*15*	**0.67**	0.67
Diluted Earnings per Class A Ordinary Share	*15*	**0.67**	0.67
Dividends declared per Class A Ordinary Share		**0.660**	0.660

See accompanying Notes to Financial Statements

Statements of Retained Earnings

(Expressed in thousands of United States dollars)

	Twelve months ended December 31, 2010 $	Twelve months ended December 31, 2009 $
Balance at beginning of period	**95,955**	95,701
Earnings for the period	**19,879**	20,013
Dividends	**(19,664)**	(19,759)
Balance at end of period	**96,170**	95,955

See accompanying Notes to Financial Statements

Statements of Cash Flows

(Expressed in thousands of United States dollars)

	Twelve months ended December 31, 2010 $	Twelve months ended December 31, 2009 $
Operating Activities		
Earnings for the period	**19,879**	20,013
Items not affecting cash:		
Depreciation of property, plant and equipment	**20,034**	18,786
Other receivable - Insurance	**2,188**	-
Amortization of intangible assets	**336**	424
Non-cash pension expenses	**120**	30
Amortization of deferred financing costs	**182**	149
Stock-based compensation	**47**	46
	42,786	39,448
Net change in non-cash working capital balances relating to operations	**(900)**	6,286
Net change in regulatory deferrals	**10**	(2,889)
Cash flow related to operating activities	**41,896**	42,845
Investing Activities		
Purchase of property, plant and equipment	**(21,167)**	(42,214)
Costs related to intangible assets	**(292)**	(451)
Proceeds on sale of property, plant and equipment	**26**	-
Cash flow related to investing activities	**(21,433)**	(42,665)
Financing Activities		
Proceeds from debt financing	**9,000**	41,500
Repayment of debt	**(14,000)**	(15,915)
Decrease in bank overdraft	**-**	(4,158)
Dividends paid	**(19,664)**	(19,759)
Net proceeds from share issues	**1,637**	1,648
Cash flow related to financing activities	**(23,027)**	3,316
(Decrease)/Increase in net cash	**(2,564)**	3,496
Cash and cash equivalents - beginning of period	**4,927**	1,431
Cash and cash equivalents - end of period	**2,363**	4,927
Supplemental disclosure of cash flow information:		
Interest paid during the period	**11,995**	11,260

See accompanying Notes to Financial Statements

Notes to Financial Statements

(Expressed in thousands of United States dollars)

1. Nature of Operations and Financial Statement Presentation

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") 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.

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 non-exclusive Generation Licence (collectively the "Licences") with the Cayman Islands Government ("the Government"), which expire in April 2028 and September 2029 respectively.

The Company was incorporated on April 30, 1966 under the laws of the Cayman Islands. On November 7, 2006, the Company announced that its majority shareholder, Fortis Inc., through its wholly-owned subsidiary, Fortis Energy (Bermuda) Ltd. ("Fortis"), acquired an additional 16% of the outstanding Class A Ordinary Shares of CUC from International Power Holdings Limited ("IPHL") and four other vendors associated with IPHL. Fortis owns a controlling interest in CUC by beneficially holding approximately 59% of the outstanding Class A Ordinary Shares of CUC.

The Company is levied custom duties of $0.89 per Imperial gallon ("IG") of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports. The T&D Licence requires the Company to pay a licence fee of 1% of gross revenues which applies to customer billings for consumption over 1,000 kilowatt-hours ("kWh") per month as a pass-through charge on a per kWh basis. In addition to the licence fee, a regulatory fee of ½ of 1% of gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month.

Rate Regulated Operations

CUC's base rates are designed to recover and earn a return on all non-fuel and regulatory costs and include per kWh electricity charges and fixed facilities charges. Fuel cost charges and licence 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"). After the requisite review in 2010, the Company confirmed to the ERA that the RCAM yielded no rate adjustment; therefore there was no rate adjustment in June 2010. 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") and intangible assets acquired or constructed by the Company as reported in the Company's financial statements (see Note 2). The original book value of these fixed assets include an Allowance for Funds Used During Construction ("AFUDC") (Note 8) and an allowance for General Expenses Capitalised ("GEC") (Note 8). GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity.

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. 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.

Kilowatt-hour Sales

Kilowatt-hour sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. The kWh accrual for the period is based on estimated electricity sales to customers since the last meter reading.

(Expressed in thousands of United States dollars)

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.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand, bank demand deposits and bank fixed deposits maturing within three months of the date of acquisition. At December 31, 2010, cash and cash equivalents consisted of only cash.

Accounts Receivable
Accounts receivable are included in the balance sheet net of the allowance for doubtful accounts. Insurance receivables are recorded when recovery becomes reasonably assured.

Inventories
Fuel and lube oil are carried at cost. Line inventory is carried at cost less provision for obsolescence. Inventories are consumed/utilised on an average cost basis. Inventories are valued at lower of cost and net realisable value.

Property, Plant and Equipment
PP&E are stated at cost.

The cost of additions to PP&E is the original cost of contracted services, direct labour and related overheads, materials, GEC and AFUDC. Line inventory that is foreseeable as capitalisable is included in PP&E less provision for obsolescence. Major spare parts and stand-by equipment to be used during more than one period qualify as PP&E. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of PP&E, they are accounted for as PP&E. Damaged PP&E are written off, or appropriate provision made, where damage relates to assets that will be reconstructed.

The Company capitalises certain overhead costs not directly attributable to specific capital assets but which do relate to the overall capital expenditure programme (GEC). Per the Licence agreements these costs may not exceed 10% of Non-Fuel Operating expenses. In the absence of regulation, only those overhead costs directly attributable to construction activity would be capitalised under Canadian GAAP. Additionally, the Company capitalises an AFUDC, which represents the cost of debt and equity financing incurred during construction of capital assets. In the absence of rate regulation, this cost of equity financing would not be capitalised under Canadian GAAP.

Upon disposition of capital assets the original cost will be removed from the capital asset accounts, that amount net of salvage proceeds will also be removed from accumulated depreciation, as such, any resulting gain or loss will be charged to accumulated depreciation. In the absence of rate regulation, these gains or losses would be recognised as such upon disposition.

Depreciation is provided on the cost of fixed assets, except for freehold land, capitalised projects in progress, line inventory and spare parts which is not depreciated, on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Transmission and distribution	20 to 50
Generation	20 to 50
Other: Buildings	20 to 50
Motor Vehicles	5 to 15
Equipment and computers	3 to 20

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.

Intangible Assets
Intangible assets include deferred licence renewal costs, computer software, and trademark expenses. Intangible assets, excluding trademark expenses and assets in progress are being amortized on a straight-line basis over the life of the asset. Deferred licence renewal costs are being amortized over 20 years on a straight-line basis. Computer software costs are being amortized over a range of 3 to 10 years on a straight-line basis.

(Expressed in thousands of United States dollars)

Foreign Exchange
Monetary assets and liabilities denominated in foreign currencies 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. Gains and losses on translation are included in the Statement of Earnings.

The Company translates its Cayman Islands Dollars to United States Dollars at a fixed rate of CI$0.84 to US$1.00.

Operating Revenues
Revenue is recognised in a manner approved by the utility's regulatory authority. Revenue is billed at rates approved by the ERA and is generally bundled to include service associated with generation, transmission and distribution.

Transmission is the conveyance of electricity at high voltages (generally at 69 kilovolts ("kV") and higher). Distribution networks convey electricity from transmission systems to end-use customers.

Revenue from the sale of electricity is recognised on an accrual basis. Electricity is metered upon delivery to customers and recognised as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings. At the end of each period, a certain amount of consumed electricity will not have been billed.

Electricity consumed but not yet billed to customers is estimated and accrued as unbilled revenue at each period end.

Other Income
Other income is comprised of pole rental fees, income from pipeline operations, sale of meter sockets, sale of recyclable metals and other miscellaneous income.

Other Income is recognised when sales are delivered, services are rendered and rental fees are recognised on a linear basis on the period of the lease.

Segment Information
The Company operates in one business segment, electricity generation, transmission and distribution, in one geographic area, Grand Cayman, Cayman Islands.

Fair Values
The fair value of financial assets and liabilities has been determined from market values where available. Where fair values of financial instruments with an immediate or short-term maturity are considered to approximate cost, this fact is disclosed. Fair value of financial assets and liabilities for which no market value is readily available is determined by the Company using future cash flows discounted at an estimated market rate. In establishing an estimated market rate, the Company has evaluated the existing transactions, as well as comparable industry and economic data and other relevant factors such as pending transactions.

Capital Stock
Dividend Reinvestment Plan
All dividends payable on Class A Ordinary Shares recorded for participation in the Plan, including Class A Ordinary Shares acquired and retained under the Plan, will be used by CUC to purchase additional Class A Ordinary Shares for the Participant's account on the Investment Date.

Executive Stock Option Plan
The Company accounts for its executive stock option grants using the fair value method, where any compensation expense is amortised over the vesting period of the options.

The Company has a policy of measuring compensation expense upon the issuance of stock options. Using the fair value method, the compensation expense is amortized over the four-year vesting period of the options. Upon exercise, the proceeds of the option are credited to capital stock at CI$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. Forfeitures are accounted for as they occur.

(Expressed in thousands of United States dollars)

Employee Benefit Plans
The Company maintains defined contribution pension plans for its employees and a defined benefit pension plan for the retired Chairman of the Company's Board of Directors as well as the retired President and Chief Executive Officer. The pension costs of the defined contribution plan are recorded as incurred. The pension costs of the defined benefit plan are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. Past service costs from plan initiation are amortized on a straight-line basis over the remaining service period of the employee active at the date of initiation. The excess of any cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year, are deferred and amortized over the remaining service period of the employee. The balance of any such actuarial gain (loss) is also deferred.

Financial Instruments
The Company designates its financial instruments into one of the following three categories: (i) held for trading, (ii) loans and receivable, (iii) Other financial liabilities. All financial instruments are initially measured at fair value. Subsequent adjustment of held for trading instruments are taken to the Statement of Earnings, whereas loans and receivables and other financial liabilities are subsequently measured at cost using the effective interest rate method.

The Company's policy is to recognise transaction costs associated with financial assets and liabilities as an adjustment to the cost of those financial assets and liabilities recorded on the balance sheet. These transaction costs are amortized into earnings using the effective interest rate method over the life of the related financial instrument.

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 recognised under Electricity Sales.

The adoption of this practice resulted in a reclassification to Fuel Factor of $1.1 million for the year ended December 31, 2009 with a corresponding reduction in Electricity Sales.

4. Accounts Receivable

Accounts Receivable

($ thousands)

	As at December 31, 2010	As at December 31, 2009
Billings to consumers	**6,521**	5,650
Unbilled revenue	**4,400**	4,890
Other receivable	**922**	956
Employee Share Purchase Plan	**74**	75
Total accounts receivable	**11,917**	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. Consumers are billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue.

(Expressed in thousands of United States dollars)

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 22).

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

5. Other Receivable - Insurance

Insurance Receivable

($ thousands)

	As at December 31, 2010	As at December 31, 2009
Unit 33 claim	**2,119**	-
Other insurance claims	**69**	-
Total	**2,188**	-

On September 23, 2010 there was an over speed failure damaging Unit 33, a MAN Diesel SE 16 megawatt (“MW”) diesel generating unit. It is estimated that repairs will be completed in April 2011 and during this period the unit will be out of service. The cost of the repairs are covered by the Company’s insurance policy subject to the deductible of $0.5 million. $2.1 million of the Other Receivable - Insurance balance represents insurance claims related to the unit failure.

6. Regulatory Assets and Liabilities

Assets and Liabilities

($ thousands)

	Description	**As at December 31, 2010**	As at December 31, 2009
Regulatory assets	Fuel tracker account (a)	**21,192**	21,996
Regulatory assets	Miscellaneous regulatory assets (b)	**491**	-
Regulatory assets	Total	**21,683**	21,996
Regulatory liabilities	Government and Regulatory Tracker account (c)	**(670)**	(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

(Expressed in thousands of United States dollars)

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 year ended December 31, 2010 would have been $0.8 million higher.

(b) Miscellaneous regulatory assets represent costs incurred by the Company, other than fuel and the specifically itemised licence and regulatory fees, to be recovered through the Company's base rates on terms as agreed with the ERA. In the absence of rate regulation and governmental controls the balance in the miscellaneous regulatory assets would have been expensed and earnings for the year ended December 31, 2010 would have been $0.5 million lower.

(c) *Government and Regulatory Tracker Account*: A licence fee of 1% of gross revenues applies to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per kWh basis. Additionally, a regulatory fee of ½ of 1% is charged on gross revenues then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The tracker account is the actual fee incurred less the amount of funds received from consumers. The per kWh charge is then adjusted quarterly for the balance of this account. There is no impact in the absence of rate regulation.

7. Inventories

Inventories

($ thousands)

	As at December 31, 2010	As at December 31, 2009
Fuel	**2,593**	2,356
Line spares	**97**	100
Other	**384**	246
Total	**3,074**	2,702

The inventory amounts expensed for the year ended December 31, 2010 totalled $112.3 million which includes $111.8 million in fuel and lube costs and $0.3 million in vehicle fuel and $0.2 million in line spares.

(Expressed in thousands of United States dollars)

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

Property, Plant and Equipment

($ thousands)

	Cost	Accumulated Depreciation	Net Book Value December 31, 2010
T&D	239,390	70,845	168,545
Generation	248,575	88,426	160,149
Other:			
Land	5,304	-	5,304
Buildings	19,971	8,145	11,826
Equipment, motor vehicles and computers	18,761	12,280	6,481
Total other	44,036	20,425	23,611
Property, plant and equipment	532,001	179,696	352,305

	Cost	Accumulated Depreciation	Net Book Value December 31, 2009
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	18,292	10,015	8,277
Total other	42,673	18,666	24,007
Property, plant and equipment	514,669	161,310	353,359

Included in PP&E are a number of capital projects in progress with a total cost to date of $21.1 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, line inventory with a cost of $5.1 million (December 31, 2009: $5.3 million) is included in T&D. Engine spares with a net book value of $15.0 million (December 31, 2009: $14.0 million) are included in Generation.

The capitalisation of 'Financing Costs' is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for fiscal 2010 is 8.75% (2009: 10%) and will be adjusted annually. As a result, during the year ended December 31, 2010, the Company recognised $3.0 million in AFUDC. The Company recognised an amount of $4.7 million for year ended December 31, 2009 under the provision for AFUDC.

GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity. The Company capitalised an amount of $2.2 million (December 31, 2009: $1.5 million) for the year ended December 31, 2010 under the provision for GEC.

In accordance with the Licences when an asset is impaired or disposed of, before the original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with rate regulated accounting and differs from the GAAP treatment of a loss being recognised on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. This amount within accumulated depreciation is to be depreciated as per the remaining life of the asset when the unit is placed into service. In the case of the 16-MW unit, which was taken out of service in October 2010 (see Note 5 for more details), insurance proceeds will be applied to accumulated depreciation and as the asset is repaired the costs incurred will be capitalised.

(Expressed in thousands of United States dollars)

9. Intangible Assets

Intangible Assets

($ thousands)

	Cost	Accumulated Amortization	Net Book Value December 31, 2010
Deferred licence renewal costs	1,890	250	1,640
Computer software	4,061	3,139	922
Other intangible assets in progress	237	-	237
Total	6,188	3,389	2,799

	Cost	Accumulated Amortization	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	211	-	211
Total	5,896	3,053	2,843

Deferred licence renewal costs relate to negotiations with the Government for licences for the Company. Amortization 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 $15.0 million at December 31, 2010 ($24.0 million at December 31, 2009).

Short-Term Financing

($ thousands)

Credit Facilities	Total Credit Financing Facilities	Total Utilised December 31, 2010	Total Available December 31, 2010
Corporate credit card line *	300	300	-
Letters of credit - 1% per annum	595	595	-
Operating, revolving line of credit - Prime plus 0.5% per annum	7,500	-	7,500
Catastrophe standby loan - Libor plus 1.5% per annum	7,500	-	7,500
Demand loan facility - interim funding of capital expenditures - Libor plus 1.5% per annum	17,000	17,000	-
Total	32,895	17,895	15,000

* *Included in Accounts payable and accrued expenses*

(Expressed in thousands of United States dollars)

11. Long-Term Debt

Long-Term Debt

($ thousands)

	As at December 31, 2010	As at December 31, 2009
8.47% Senior Unsecured Loan Notes due 2010	-	1,500
6.47% Senior Unsecured Loan Notes due 2013	**7,500**	10,000
7.64% Senior Unsecured Loan Notes due 2014	**12,000**	15,000
6.67% Senior Unsecured Loan Notes due 2016	**18,000**	21,000
5.09% Senior Unsecured Loan Notes due 2018	**32,000**	36,000
5.96% Senior Unsecured Loan Notes due 2020	**30,000**	30,000
5.65% Senior Unsecured Loan Notes due 2022	**40,000**	40,000
7.50% Senior Unsecured Loan Notes due 2024	**40,000**	40,000
	179,500	193,500
Less: Current portion of long-term debt	**(15,500)**	(14,000)
Less: Deferred debt issue costs	**(1,210)**	(1,341)
	162,790	178,159

Long-term debt repayments per fiscal year are as follows:

Year	$
2011	15,500
2012	15,500
2013	19,500
2014	17,000
2015	14,000
2016 and later	98,000

All long-term debt is denominated in United States dollars.

Certain of the Company’s long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65% of the Company’s consolidated capital structure, as defined by the long-term debt agreements. As at December 31, 2010, the Company was in compliance with all debt covenants.

12. Capital Management

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

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

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

(Expressed in thousands of United States dollars)

The Company's capital structure is shown below:

Capital Structure

	December 31, 2010 *($ thousands)*	%	December 31, 2009 *($ thousands)*	%
Total debt	**195,290**	**53**	200,159	54
Shareholder's equity	**173,841**	**47**	171,942	46
Total	**369,131**	**100**	372,101	100

13. Capital Stock

Authorised:

a) 60,000,000 (December 31, 2009: 60,000,000) Class A Ordinary Shares of CI$0.05 each
b) 250,000 (December 31, 2009: 250,000) 9% Cumulative, Participating Class B Preference Shares of CI$1.00 each (non voting)
c) 1 Cumulative, Participating, Class D Preference Share of CI$0.56 (non voting)

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

Class A Ordinary Shares Issued

	Year ended Dec. 31, 2010 Number of shares	Year ended Dec. 31, 2010 Amount *($ thousands)*	Year ended Dec. 31, 2009 Number of shares	Year ended Dec. 31, 2009 Amount *($ thousands)*
Balance, beginning of period	28,277,139	1,683	28,087,313	1,672
Customer Share Purchase and Dividend Reinvestment Plan	170,964	10	171,976	10
Employee Share Purchase Plan, Employee Long Service Bonus Plans and Employee Stock Options	16,750	1	17,850	1
Class A Ordinary Shares issued and outstanding	28,464,853	1,694	28,277,139	1,683
9% Cumulative, Participating Class B	250,000	250	250,000	250
Total		1,944		1,933

Total shares issued and purchased in 2010 were 187,714.

Share proceeds totalled $1.6 million, of which $1.6 million was recorded as an increase to share premium and $0.01 million as an increase to share capital.

(Expressed in thousands of United States dollars)

14. Share Options

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

The exercise price per share in respect of options is equal to the fair market value of the Class A Ordinary Shares on the date of grant. Each option is for a term not exceeding ten years, and will become exercisable on a cumulative basis at the end of each year following the date of grant. The maximum number of Class A Ordinary Shares under option shall be fixed and approved by the shareholders of the Company from time to time and is currently set at 1,220,100. 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

	Dec. 31, 2010 Number of options	Dec. 31, 2010 Weighted average exercise price per share	Dec. 31, 2009 Number of options	Dec. 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
Forfeited	(54,500)	(11.60)	(27,000)	(12.34)
Outstanding at end of period	850,403	11.59	904,903	11.59

The position with respect to outstanding unexercised options as at December 31, 2010 was as follows:

Share Options

Date of grant	Number of Class A Ordinary Shares under option	Number of exercisable Class A Ordinary Shares	Exercise price ($)	Term of option
July 18, 2001	382,303	382,303	11.46	10 years
September 22, 2003	174,100	174,100	13.78	10 years
April 11, 2008	145,200	72,600	12.22	10 years
February 27, 2009	148,800	37,200	8.76	10 years
Outstanding at end of period and Weighted Average	850,403	666,203	11.59	

On February 27, 2009; 161,300 options were granted under the Executive Stock Option Plan at an exercise price of $8.76. The options vest on the basis of one quarter of the grant on each of the first through fourth anniversaries of the dates of the grant and bear a term of 10 years from the date of the grant, thereby expiring on February 27, 2019. The fair value of each option granted was calculated to be $0.78 per option. The fair value was estimated on the date of the grant using the Black-Scholes fair value option pricing model and the following assumptions:

Dividend Yield (%):	7.13
Expected Volatility (%):	24.00
Risk-free interest rate (%):	2.26
Expected life (years):	7.00

Under the fair value method, the compensation expense was $0.05 million for the year ended December 31, 2010 (December 31, 2009: $0.05 million), resulting in a corresponding increase of the contributed surplus.

(Expressed in thousands of United States dollars)

15. 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 28,351,734 and 28,160,115 for the years ended December 31, 2010 and December 31, 2009 respectively. The weighted average of Class A Ordinary Shares used for determining diluted earnings were 28,351,734 and 28,160,115 for the years ended December 31, 2010 and December 31, 2009 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at December 31, 2010 the outstanding options are not dilutive as the average market price of common shares is below exercise price.

Earnings per Share

	Earnings Dec. 31, 2010 *($ thousands)*	Weighted average shares Dec. 31, 2010 *($ thousands)*	Earnings per common shares Dec. 31, 2010 *($ thousands)*
Net earnings applicable to common shares	18,926	-	-
Weighted average shares outstanding	-	28,352	-
Basic earnings per common share	-	-	0.67
Effect of potential dilutive securities:			
Stock options	-	-	-
Diluted earnings per common share	18,926	28,352	0.67

	Earnings Dec. 31, 2009 *($ thousands)*	Weighted average shares Dec. 31, 2009 *($ thousands)*	Earnings per common shares Dec. 31, 2009 *($ thousands)*
Net earnings applicable to common shares	18,831	-	-
Weighted average shares outstanding	-	28,160	-
Basic earnings per common share	-	-	0.67
Effect of potential dilutive securities:			
Stock options	-	-	-
Diluted earnings per common share	18,831	28,160	0.67

(Expressed in thousands of United States dollars)

16. Financial Instruments

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

Financial Instruments

	As at Dec. 31, 2010 Carrying value	As at Dec. 31, 2010 Estimated fair value	As at Dec. 31, 2009 Carrying value	As at Dec. 31, 2009 Estimated fair value
Held for trading:				
Cash and cash equivalents	2,363	2,363	4,927	4,927
	2,363	2,363	4,927	4,927
Loans and receivables:				
Trade and other accounts receivable	11,917	11,917	11,571	11,571
Other receivables - Insurance proceeds	2,188	2,188	-	-
Other assets	173	173	36	36
	14,278	14,278	11,607	11,607
Other financial liabilities:				
Short-term borrowings	17,000	17,000	8,000	8,000
Accounts payable and accrued expenses	24,985	24,985	22,510	22,510
Consumer deposits	4,178	4,178	3,963	3,963
Long-term debt including current portion [1]	178,290	167,768	192,159	172,856
	224,453	213,931	226,632	207,329

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 December 31, 2010 totalled $167.8 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 and other assets. 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.

(Expressed in thousands of United States dollars)

Trade and Other Accounts Receivables

($ thousands)

	As at December 31, 2010	As at December 31, 2009
Current	**9,556**	9,151
Past due 31 to 60 days	**809**	822
Past due 61 to 90 days	**348**	622
Past due over 90 days	**1,423**	1,171
Total accounts receivables	**12,136**	11,766
Less: Allowance for doubtful accounts	**(219)**	(195)
Less: Consumer deposits and advances for construction	**(4,178)**	(3,963)
Net exposure	**7,739**	7,608

As at December 31, 2010, the net exposure on the balance sheet is $7.7 million.

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.

Liquidity Risks

($ millions)

	Total	2010	2011 - 2012	2013 - 2014	2015 onward
Accounts payable and accrued expenses	25.0	25.0	-	-	-
Consumer's deposits and advances for construction	4.2	4.2	-	-	-
Short-term debt	17.0	17.0	-	-	-
Letter of credit	0.6	0.6	-	-	-
Long-term debt interest	69.8	10.8	18.7	14.5	25.8
Total debt	179.5	15.5	35.0	31.0	98.0
Total	296.1	73.1	53.7	45.5	123.8

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.

(Expressed in thousands of United States dollars)

17. Insurance Coverage

The Company renewed its insurance policy as at July 1, 2010 under the similar terms and coverage as in prior years. Insurance terms and coverage include $100.0 million in property and machinery breakdown insurance and business interruption (“BI”) insurance per annum with a 24-month indemnity period and a 45-day deductible. All T&D assets outside of 1,000 feet from the boundaries of the main Power Plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of $100.0 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 $1.0 million and maximum deductible of $4.0 million for all interests combined.

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

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

Included in plant and equipment are certain uninsured T&D assets with an estimated replacement cost of $202.8 million. This value excludes substations which are covered in the main property policies

18. Foreign Exchange

The closing rate of exchange on December 31, 2010 as reported by the Bank of Canada for the conversion of US dollars into Canadian dollars was Cdn$0.995 per US$1.00. The official exchange rate for the conversion of Cayman Islands 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 December 31, 2010 for conversion of Cayman Islands dollars into Canadian dollars was Cdn$1.19 per CI$1.00 (December 31, 2009: Cdn$1.261).

19. Finance Charges

The composition of finance charges were as follows:

Finance Charges

($ thousands)

	Year ended December 31, 2010	Year ended December 31, 2009
Interest costs - long-term debt	**11,664**	11,307
Other interest costs	**458**	432
AFUDC *	**(2,979)**	(4,668)
Total	**9,143**	7,071

* *Refer to PP&E (Note 8) with regards to AFUDC methodology*

(Expressed in thousands of United States dollars)

20. Pension Plan

All employees of the Company are members of a defined contribution Pension Plan established for the exclusive benefit of employees of the Company and which complies with the provisions of the National Pensions Law. As a term of employment, the Company contributes 7.5% of wages or salary in respect of employees who have completed 15 years of continuous service and have attained the age of 55 years and 5% of wages or salary for all other employees. All contributions, income and expenses of the plan are accrued to, and deducted from, the members' accounts. The total expense recorded in respect of employer contributions to the plan for the year ended December 31, 2010 amounted to $0.81 million (December 31, 2009: $0.81 million). The Pension Plan is administered by an independent Trustee.

During 2003, the Company established a defined benefit pension plan for a retired Chairman of the Company. In May 2005, the Company's Board of Directors approved the establishment of a defined benefit pension plan for the retired President and Chief Executive Officer. The pension cost of the defined benefit plan is actuarially determined using the projected benefits method. In April 2007, the Company established an independent trust and the defined benefit plans were amalgamated at that time. An independent actuary performs a valuation of the obligations under the defined benefit pension plans at least every three years. The latest actuarial valuation of the pension plans for funding purposes was completed as at December 31, 2010. An accrued benefit liability of $0.1 million as at December 31, 2010 (December 31, 2009: $0.1 million) is included within Accounts Payable and Accrued Expenses in the Balance Sheets.

(Expressed in thousands of United States dollars)

Pension Plan

	2010	2009
Accrued Benefit Obligation		
Balance beginning of year	**5,232**	5,060
Interest cost	**311**	301
Actuarial (gains)/losses	**443**	(50)
Benefit payments	**(101)**	(79)
Balance end of year	**5,885**	5,232
Plan Assets		
Fair value, beginning of year	**3,168**	2,903
Actual return on plan assets	**705**	(135)
Employer contributions to plan	**445**	479
Benefit payments	**(101)**	(79)
	4,217	3,168
Funded Status - deficit	**(1,670)**	(2,065)
Unamortized past service costs	**828**	1,076
Unamortized net actuarial loss	**723**	905
Accrued Benefit Liability	**(119)**	84
The Company's defined benefit pension plan asset allocation was as follows:		
Equities	**51%**	42%
Money market funds	**7%**	46%
Fixed income	**37%**	10%
Cash	**5%**	2%
	100%	100%
During the year ended December 31, 2010, $0.5 million (December 31, 2009: $0.5 million) was recorded as compensation expense, which comprises the following:		
Interest cost	**311**	301
Expected return on plan assets	**(168)**	(92)
Amortization of past service costs	**248**	248
Amortization of actuarial losses	**88**	51
	479	508
Significant assumptions used:		
Discount rate during year (%)	**6.00**	6.00
Discount rate at year end (%)	**5.50**	6.00
Rate of compensation increase (%)	**3.00**	3.00
Expected long-term rate of return on plan assets (%)	**5.00**	3.00
Average remaining service period (years)	**3.00**	4.00

(Expressed in thousands of United States dollars)

21. Taxation

Under current laws of the Cayman Islands, there are no income, estate, corporate, capital gains or other taxes payable by the Company.

The Company is levied custom duties of $0.89 per IG of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports.

22. Transactions with Related Parties

Miscellaneous receivables from Fortis Turks & Caicos, also a subsidiary of Fortis Inc. totalling $0.04 million were outstanding at December 31, 2010 ($0.09 million December 31, 2009). Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totalled $0.03 million were outstanding at December 31, 2010 ($0.02 million as at December 31, 2009). Miscellaneous receivables from management totalling $0.001 million were outstanding at December 31, 2010. ($0.001 million as at December 31, 2009).

23. Commitments

In June 2007, the Company renewed its Primary Fuel Supply Contract with Esso Standard Oil S.A. Limited ("Esso"). As a condition of the new contract, the point of delivery for fuel billing purposes has moved from the Company's Power Plant compound to the Esso terminal. CUC has also assumed responsibility for the management of the fuel pipeline (fuel suppliers will continue to pay the regular throughput fee) and ownership of bulk fuel inventory at the North Sound Power Plant. The Company is committed to purchase 80% of the Company's fuel requirements for the running of the Power Plant from Esso, the contract was for three years terminating in April 2010. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IG: 2011 - 24.7. The contract contains an automatic renewal clause for the years 2010 through 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.

As a result of the Company's purchase of the bulk fuel inventory, the value of CUC's closing stock of fuel at December 31, 2010 was $2.6 million (December 31, 2009: $2.4 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Road Power Plant.

24. Subsequent Events

On Friday, January 28, 2011, equipment associated with a MaK 9-MW diesel generating unit was damaged due to an explosion during a start process. That incident resulted in injuries to two employees, one of whom remains in critical condition. Damage to the unit was contained to peripheral equipment. The investigation into this incident is ongoing.

On Saturday, February 5, 2011 CUC experienced a major mechanical failure of a Mirrlees 7.59-MW diesel generating unit. There were no personnel injuries and damage was contained to the single diesel generating unit. This generating unit was installed in 1991 and was scheduled for retirement in 2012.

While the Company believes that losses excluding deductibles from both incidents, including the cost of temporary generation and BI are covered by the Company's comprehensive insurance policies, delays in realizing insurance payouts could result in significant receivables to the Company.

The Company received initial payments of $0.8 million on its 16-MW over speed failure insurance claim in January 2011.

25. Comparative Figures

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

Ten-Year Summary

(Except where noted, expressed in thousands of United States dollars)

	2010	2009
Operating revenues	**180,096**	158,809
Other revenues and adjustments	**3,108**	3,109
Total revenues	**183,204**	161,918
Operating expenses	**154,182**	134,834
Income before interest	**29,022**	27,084
Finance charges	**9,143**	7,071
Earnings for the year	**19,879**	20,013
Capitalisation:		
Class A Ordinary Shares (nominal value)	**1,694**	1,683
9% Cumulative Participating Class B Preference Shares (nominal value)	**250**	250
Share Premium	**75,355**	73,729
8% Cumulative Fixed Term Class C, Series 2 Preference Shares ($100 each)	**-**	-
Long-term loans	**195,290**	200,159
Total capitalisation	**272,589**	275,821
Capital expenditures	**21,459**	42,665
Earnings per Class A Ordinary Share ($/Share)	**0.67**	0.67
Dividends per Class A Ordinary Share ($/Share)	**0.660**	0.660
Book value per Class A Ordinary Share ($/Share)	**5.96**	5.90
Statistical Record:		
Net kWh generation (millions of kWh)	**593.50**	597.40
Net kWh sales (millions of kWh)	**553.80**	558.10
Peak load (MW) gross	**102.09**	97.50
Plant capacity (MW)	**151.23**	152.60
Total customers (actual number)	**26,151**	25,461

This Ten-Year Summary does not form part of the audited Financial Statements

TP 2008	2008	2007	2006	2005	2004	2003	2002
150,348	175,981	158,859	135,677	92,871	106,643	96,921	90,124
2,526	3,016	2,851	8,721	10,041	2,276	2,560	2,420
152,874	178,997	161,711	144,398	102,912	108,919	99,481	92,544
135,122	144,673	133,812	112,328	90,190	81,223	72,970	67,621
17,752	34,324	27,898	32,070	12,722	27,696	26,511	24,923
5,153	10,564	9,444	9,212	8,498	7,709	6,321	5,648
12,599	23,760	18,454	22,858	4,224	19,987	20,190	19,275
1,672	1,513	1,508	1,505	1,490	1,480	1,463	1,440
250	250	250	250	250	250	250	250
72,092	43,216	42,230	41,656	39,022	37,328	51,341	63,411
-	-	-	-	-	-	6,008	12,015
174,643	184,790	165,540	156,038	141,521	138,395	120,704	102,966
240,657	229,769	209,528	199,449	182,283	177,453	179,766	180,082
27,986	44,617	35,586	33,940	39,788	20,041	27,732	29,095
0.45	0.90	0.70	0.87	0.13	0.77	0.80	0.77
0.495	0.66	0.66	0.66	0.33	0.66	0.64	0.61
5.87	5.41	5.15	5.09	4.82	4.98	4.69	4.44
400.74	578.40	546.07	485.52	393.51	485.63	463.00	448.10
376.60	539.56	510.64	456.04	375.74	450.27	429.28	414.58
93.77	92.71	86.83	79.04	85.03	79.06	77.06	75.99
136.60	136.60	123.50	114.63	114.63	127.40	115.10	115.10
24,518	24,042	22,768	21,115	19,011	21,127	20,269	19,198

Board of Directors

Eddinton M. Powell, JP
President and Chief Executive Officer
Fortis Turks & Caicos
Providenciales
Turks & Caicos Islands

Joseph A. Imparato
Retired Chairman
Caribbean Utilities Company, Ltd.
Grand Cayman

H. Stanley Marshall +
President and Chief Executive Officer
Fortis Inc.
Newfoundland
Canada

David E. Ritch, OBE, JP * +
Chairman of the Board of Directors
Caribbean Utilities Company, Ltd.

Attorney-at-Law
Ritch and Conolly
Grand Cayman

J. Bryan Bothwell, MBE *
Retired Banking Executive
Grand Cayman

J.F. Richard Hew
President and Chief Executive Officer
Caribbean Utilities Company, Ltd.
Grand Cayman

Frank J. Crothers +
Vice Chairman of the Board of Directors
Caribbean Utilities Company, Ltd.

Chairman
Island Corporate Holdings Ltd.
Bahamas

Peter A. Thomson
Retired Executive
Caribbean Utilities Company, Ltd.
Grand Cayman

Karl W. Smith *
President and Chief Executive Officer
FortisAlberta Inc.
Alberta
Canada
(missing from photo)

Director Emeritus:

Peter N. Thomson
Retired Executive
Bahamas

** Member Audit Committee (Chairman: J. Bryan Bothwell)* *+ Member Nominating and Corporate Governance Committee (Chairman: David E. Ritch)*

Officers

J.F. Richard Hew
President & Chief Executive Officer

Douglas H. Murray
Corporate Secretary

Andrew E. Small
Vice President Transmission & Distribution

Letitia T. Lawrence
Vice President Finance & Chief Financial Officer

David C. Watler
Vice President Production

Shareholder and Corporate Information

Shareholders

Registered shareholders as of December 31, 2010 were as follows:

Class of Shares	*Shareholders*	*Shares Held*
Class A Ordinary Shares	1,861	28,464,853
9% Class B Preference Shares	125	250,000

Fortis Energy (Bermuda) Ltd., a wholly-owned subsidiary of Fortis Inc., held 16,757,528 Class A Ordinary Shares, or 59% of the outstanding shares as of December 31, 2010. Approximately 13% of the outstanding registered shares are held by residents of the Cayman Islands. Holders of Class B Preference Shares are primarily resident in the Cayman Islands.

Annual General Meeting

Shareholders are invited to attend the Annual General Meeting of the Company to be held Tuesday, May 10, 2011 at noon at the Marriott Beach Resort on West Bay Road, Grand Cayman. If you are unable to attend, please complete and return the form of proxy in accordance with the instructions set out in the accompanying meeting material.

Dividends

Class A Ordinary Shares:
Quarterly dividends are customarily paid in March, June, September and December. Record dates are normally three weeks prior to payable dates.

Class B Preference Shares:
Quarterly dividends are paid on the last day of January, April, July and October. Record dates are normally three weeks prior to payable dates.

Dividend Reinvestment Plan

The Company offers a Dividend Reinvestment Plan to Class A Ordinary and Class B Preference shareholders. Dividends may be reinvested in additional Class A Ordinary Shares. A copy of the plan and enrolment form may be obtained by writing or calling either of the Company's Registrar and Transfer Agents (addresses and telephone numbers in right column) or through the Company's website (www.cuc-cayman.com).

Customer Share Purchase Plan

The Customer Share Purchase Plan ("CSPP") was launched in January 1995 and provides an opportunity for customers resident in Grand Cayman to invest in the Company without paying brokerage commissions or transaction fees. Customers may make cash payments of not less than $30 (CI$25) per purchase and up to a total of $14,400 (CI$12,000) per calendar year for the purchase of Class A Ordinary Shares. Quarterly cash dividends paid on the shares are reinvested in additional Class A Ordinary Shares under the CSPP. Full details of the CSPP may be obtained from CUC's Customer Service Department.

Solicitors

Appleby
P.O. Box 190
Grand Cayman KY1-1104
CAYMAN ISLANDS

Auditors

Ernst & Young Ltd.
P.O. Box 510
Grand Cayman KY1-1106
CAYMAN ISLANDS

Principal Bankers

Royal Bank of Canada
P.O. Box 245
Grand Cayman KY1-1104
CAYMAN ISLANDS

Duplicate Annual 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.

Registrar and Transfer Agents

CIBC Mellon Trust Company
P.O. Box 7010 Adelaide Street Postal Station
Toronto, Ontario, Canada M5C 2W9
Answerline™: (416) 643-5500 or 1-800-387-0825
(Toll-free throughout North America)
Fax: (416) 643-5501
Website: www.cibcmellon.ca
(Acting as principal agent)

Caribbean Utilities Company, Ltd.
P.O. Box 38, Grand Cayman KY1-1101, CAYMAN ISLANDS
Attention: Assistant to the Corporate Secretary
Telephone: (345) 949-5200
Fax: (345) 949-4621
Website: www.cuc-cayman.com
E-mail: investor@cuc.ky
(Acting as co-agent)

Toronto Stock Exchange Listing

The Company's Class A Ordinary Shares are listed for trading in United States funds on the Toronto Stock Exchange. The stock symbol is "CUP.U". There is no income or withholding tax applicable to holders of Class A Ordinary or Class B Preference Shares under the existing laws of the Cayman Islands.

Registered Office

Caribbean Utilities Company, Ltd.
P.O. Box 38, Grand Cayman KY1-1101, CAYMAN ISLANDS
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