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INVESTORS
IN PEOPLE

Caribbean Utilities Company, Ltd.
2009 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 152.6 megaWatts (MW), and a new record peak load of 97.5 MW was experienced in August 2009. CUC is committed to providing a safe and reliable supply of electricity to over 25,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's rapid development for over 40 years.

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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, 2009 $	Eight months ended Dec. 31, 2008 $	Change %
Operating revenue	**158,809**	150,348	6%
Electricity sales	**70,491**	46,406	52%
Fuel factor	**88,318**	103,942	(15%)
Total operating expenses	**134,834**	135,122	-
Finance charges	**7,071**	5,153	37%
Earnings for the year	**20,013**	12,599	59%
Total assets	**399,546**	373,987	7%
Total shareholders' equity	**171,942**	169,994	1%
Cash from operations	**42,845**	23,443	83%
Earnings per Class A Ordinary Share ($ per share)	**0.67**	0.45	49%
Dividends per Class A Ordinary Share (paid and declared) ($ per share)	**0.66**	0.495	33%
Book value per Class A Ordinary Share ($ per share)	**5.90**	5.87	1%
Class A Ordinary Shares ($ per share)			
Market price: High	**9.49**	12.25	(23%)
Low	**6.55**	6.10	7%
Year-end	**8.26**	6.80	21%

Performance

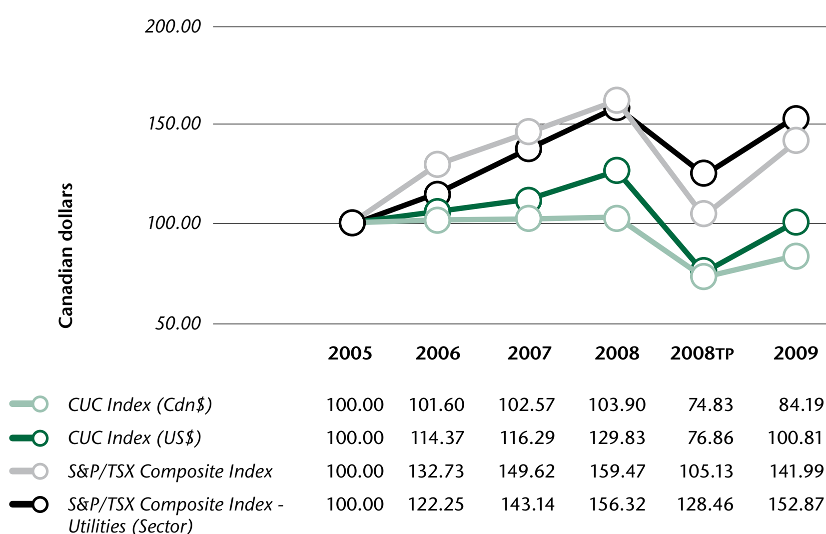
Net earnings for the twelve months ended December 31, 2009 were $20.0 million. Differing lengths of reporting periods, kiloWatt-hour sales growth and the 2.4% base rate increase in June 2009 all contributed to a 59% or $7.4 million increase from net earnings of $12.6 million for the eight months ended December 31, 2008. Dividends paid and declared on Class A Ordinary Shares were $0.660 per share. The Class A Ordinary Shares (CUP.U) traded on the Toronto Stock Exchange at a high of $9.49 per share in 2009.

Rate of Exchange

The closing rate of exchange as of December 31, 2009 as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was Cdn$1.051 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, 2009 for the conversion of Cayman Islands dollars into Canadian dollars was Cdn$1.261 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.



	2005	2006	2007	2008	2008TP	2009
CUC Index (Cdn$)	100.00	101.60	102.57	103.90	74.83	84.19
CUC Index (US$)	100.00	114.37	116.29	129.83	76.86	100.81
S&P/TSX Composite Index	100.00	132.73	149.62	159.47	105.13	141.99
S&P/TSX Composite Index - Utilities (Sector)	100.00	122.25	143.14	156.32	128.46	152.87

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 2009 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. (the “Company” or “CUC”) for the twelve month period ended December 31, 2009 (“Fiscal 2009”). Following our change in year end from April 30 to December 31 in 2008, comparisons in this report are, in many instances, to the eight-month transitional period ended December 31, 2008 (the “2008 Transitional Period”).

Net earnings for Fiscal 2009 were $20.0 million on the 558.1 million kiloWatt-hour (“kWh”) sales compared to $12.6 million on the 376.6 kWh for the 2008 Transitional Period. Earnings were positively affected by strong fourth quarter sales driven primarily by warm weather.

During Fiscal 2009, Grand Cayman (the “Island”) began to experience the full effects of the global economic recession. Growth of Gross Domestic Product (“GDP”) slowed to 1.1 % in 2008 as compared to 4.4 % in 2007. At June 2009 the Cayman Islands Economics and Statistics Office had forecasted GDP contraction of 5.7% for 2009. CUC’s kWh sales were 558.1 million kWh in Fiscal 2009 and 376.6 million kWh for the eight-month period ended December 31, 2008. This variance is primarily the result of comparing eight months in 2008 to twelve months in 2009, new customer connections, and hotter weather on average in 2009 which increased air-conditioning load.

The number of customers at December 31, 2009 was 25,461, an increase of 4% compared to 24,518 customers as of December 31, 2008. An average of 79 customers were connected per month for the twelve months ended December 31, 2009 as compared to an average of 97 customers per month for the eight months ended December 31, 2008.

The Company continues to seek opportunities to reduce controllable expenditures in the face of the current weak growth outlook.

Earnings per share were $0.67 as compared to $0.45 per Class A Ordinary Share (“Share”) for the 2008 Transitional Period. Despite earnings being below historical levels, the Company has prudently managed its cash flows to maintain its dividend level and paid out $0.66 per Share during the period.

In July 2009, the Company completed a $40 million private placement of 7.50% Senior Unsecured Notes which are due May 29, 2024. The placement of this debt reflects market confidence in the Company notwithstanding challenging economic circumstances.

Customer Service and Operations

Once again in 2009 customers returned a strong endorsement of the Company’s service with an 84% overall satisfaction rating in our customer satisfaction survey. While the relatively high cost of diesel generation

remains a concern, customers appreciated the reliable service and responsiveness in respect of service calls.

Providing a reliable service is key to the success of our business and has been crucial in encouraging and supporting growth on the Island. For 2009, the Average Service Availability Index ("ASAI") was measured at 99.96%, which is the equivalent of less than 3.25 outage hours per customer per year and compares favourably with reliability levels enjoyed by customers of large utilities throughout North America with greater economies of scale.

Service reliability is a function of CUC's system integrity and continuous improvement of infrastructure. In response to lower reliability levels experienced in the less populated eastern districts of the Island, the Company is in the process of installing an additional transmission line and upgrading distribution lines between Rum Point and the existing Frank Sound Substation. Completion of this project will provide for alternate routing of power to the eastern districts during transmission system faults, eliminating or minimising the duration of related customer outages. The Company also continues to raise the standards for reliability and durability of new and replacement infrastructure as technologies and available capital allow.

The Company continuously monitors and projects both residential and commercial growth on the Island and models infrastructure expansion planning on related projections. Generation expansion, transmission and distribution upgrades, and additional substation capacity are examples of carefully planned and executed capital expenditure in response to demand growth.

The Company's largest capital expenditures in 2009 related to the installation and commissioning of a 16 megaWatt ("MW") low speed diesel generator, supplied by MAN Diesel SE ("MAN") and installed by Burmeister & Wain Scandinavian Contractor A/S. The relationship with MAN culminates a 10-year strategic alliance during which a total of 68 MW of MAN sourced generation was commissioned and resulted in benefits to the Company including preferred customer pricing, standardization of parts, and access to technical expertise.

In April 2009, the Company submitted its first competitive bid for generation to the Electricity Regulatory Authority ("ERA"). The solicitation of bids by the ERA was initiated by the Company's issuance of a Certificate of Need for 32 MW of capacity, 16 MW in each of 2012 and 2013 to the ERA in 2008. However, in September 2009, the Company revised downward its forecast for demand based on the general economic environment and the low number of starts of large construction projects. The ERA subsequently cancelled the solicitation based on this revision. The Company continues to monitor growth indicators and will issue a new Certificate of Need to the ERA when growth rebounds and CUC's demand forecast confirms the need for additional capacity. In October 2009 the Company submitted a $157 million capital investment plan ("CIP") for the 2010 to 2014 period for ERA approval. In February 2010 the ERA approved the CIP at $98.0 million for non-generation expansion expenditures.

With the introduction of Consumer Owned Renewable Energy ("CORE") tariffs in early 2009, the Company entered a different type of relationship with a new 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 equivalent to the avoided cost of fuel, lubricants and maintenance. The Company has made recommendations to the ERA, which would establish incentives for customers in the CORE programme, aimed at increasing the participation rate. To date, only two customers have enrolled in the programme and the participation will likely remain low in the absence of subsidies to make the CORE customer's investment economically feasible.

To have a meaningful impact in reducing greenhouse gas emissions, deployment of renewable energy generation will need to be on a relatively large scale. Although early wind studies completed in 2003 indicated that wind generation was not viable on the Island, CUC now believes that advances in technology and the increase in diesel costs have improved the potential viability of wind generation. The Company believes that non-firm, renewable sources of up to 10 MW can be accommodated within the system. In July 2008 CUC issued a Request for Proposals to pre-qualified wind generation developers, soliciting bids for projects of up to 10 MW of such generation. CUC has received proposals from several interested wind developers and is presently conducting detailed evaluations. If a proposal is accepted, the successful bidder will be required to obtain planning approvals including meeting environmental requirements. Upon completion of the project, CUC will purchase all generated power at an agreed rate per kWh under a power purchase agreement.

High and volatile fuel prices experienced in 2008 were contrasted by relatively low and stable prices in 2009. Fuel and lubrication costs, including duty at a rate of CI$0.50 per

Imperial Gallon ("IG"), are passed on to consumers without mark-up.

The Company's average price per IG of fuel for the 12 months ended December 31, 2009 decreased to $2.77, compared to $4.45 for the eight months ended December 31, 2008.

In September 2009, as part of its own fiscal austerity measures the Cayman Islands Government removed a CI$0.20 per IG fuel duty rebate implemented in January 2008 that was applied to the first 1,500 kWh of monthly consumption for residential customers. This resulted in higher fuel charges for residential consumers.

CUC continues to promote energy conservation through its Energy Smart Programme by educating customers on energy conservation methods and conducting walk-through audits for customers, mainly residential, who are seeking assistance in reducing energy waste.

Training and Human Resources

Despite challenging economic circumstances, the Company continues to retain its well qualified employee complement and no layoffs were implemented. Although off-island training was curtailed across all departments, training remained a priority and during the year 49 employees advanced in technical qualification and apprenticeship levels. The ability to maintain a competent and efficient workforce is key to the continued long-term success of the Company.

Over 92% of CUC's workforce is Caymanian although over 50% of the general workforce in the Cayman Islands is from overseas. The Company is committed to employing Caymanians and where qualified Caymanians are not available, the Company employs non-Caymanians to fill the job requirements and to provide training to a Caymanian successor. In addition, the Company offers scholarships to qualified Caymanians who demonstrate the potential to fill a needed role within the business on graduation. Three of the Company's five executives and three of its thirteen managers were educated by way of CUC scholarships.

The Company has continued its investment in training to ensure that employees are provided with the necessary knowledge and skills required within their positions, for advancement within the organisation and to ensure that the Company continues to improve its efficiency and effectiveness.

During 2009 the Company welcomed back two employees who have graduated with technical degrees. They are both recipients of sponsorship assistance from the Company. Three other young Caymanian scholarship holders are currently overseas at university.

In 2009, thirty employees had contributed a total of 495 years of service to the Company and were celebrated at the long service awards event held in July. CUC is grateful to these employees for their loyalty and commitment.

Environment, Safety and Community

In the absence of environmental regulation governing CUC's operations, the Company established self-imposed standards to which it adheres under its ISO 14001 certification. Significant environmental aspects, which are the focus of the programme, include exhaust gas emissions, oily waste management, diesel and gasoline management, hazardous materials and chemicals management, management of oily rags and hydrocarbon solids, and process water disposal.

CUC's mission is to be a leader in the growth of our community by delivering safe and reliable energy services at competitive costs and with respect for the environment while being a model corporate citizen and providing a fair return to our shareholders.

During 2009 the focus of our environmental and safety programmes has been on enhancing the management systems through the effective use of information technology; on aligning our safety and environmental systems to the organisation's overall enterprise-wide risk management programme; and on enhancing our internal monitoring and auditing capability through the use of internal resources such as the Internal Audit and Risk Management Department.

The management of CUC continues to focus on safety through the use of its worksite observation programme. This ensures a safe workplace through the continued adherence to policies and procedures, incidents and near-miss investigations to prevent re-occurrence, and encouragement of a proactive culture to prevent accidents.

CUC has taken several strides towards improving its overall environmental performance in 2009 through several key initiatives. Renewable energy technologies and their application on Grand Cayman have been major areas of interest for the Company. As a result, CUC has installed a solar generation system at CUC to: investigate the feasibility of small scale solar generation; understand the technology, installation, grid connection implications and requirements; and provide a demonstration project for customers who are interested in this technology.

CUC has also been improving several key areas with a view to reducing the potential for environmental incidents. These areas include improvements to the monitoring and control of fuel handling and cooling water processes to provide real time data and control functions. In addition, these improvements will allow CUC to immediately react to deviations from normal operating parameters to prevent any potential environmental impact.

During 2009, the Company experienced an injury frequency rate of 2.55 incidents per 200,000 man-hours worked which reflects an improvement over calendar 2008 which was 5.04 per 200,000 man-hours worked. Employee and contractor safety is critical in our business which is characterised by unique and ever present hazards including risk of electrocution and falls from significant heights. Equipment inspection, employee and contractor orientation and continuous training in matters such as protective equipment are cornerstones of our successful programme.

The Company's safety programmes also extend to the public with CUC's continued focus on electrical hazard awareness through school programmes and public safety demonstrations.

The Company participates in a variety of community involvement activities through donations and employee volunteerism. These activities are primarily focused on environmental awareness and protection and youth development through sports and education.

During 2009, 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. Fifteen schools and over 400 children participate in this highly successful programme.

The CUC Community Involvement Team makes a difference in the Cayman community with hands-on projects in support of the Sunrise Adult Training Center and the Lighthouse School and through the sponsoring of events such as the Christmas Stocking Decorating Party and the annual Kiwanis Santa's Landing.

During 2009, our employees volunteered 2,366 hours to participate in the Company's Community Involvement projects. These included the Royal Cayman Islands Police Service (RCIPS) Special Constabulary, the Cadet Corps, Big Brothers Big Sisters and the Meals on Wheels programme.

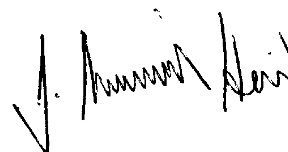
The Company again proudly recognised 10 employees who each contributed over 50 hours of their personal time to the community. We thank our employees for their loyalty to and support of the Company.

As we monitor the ongoing economic challenges facing business across the community, CUC has shifted its focus from the previous challenge of keeping ahead of customer growth in a high growth environment to one of controlling cost in a low growth era. One of the steps we have taken to reduce cost is to change the format of this annual report without compromising the quality to the reader.

The Company will continue to operate in a prudent and efficient manner and will remain focused on providing its customers with a safe and reliable service.

CUC would like to record its appreciation for the sound guidance and steadfast support it has received from its Board of Directors over the past year. We thank you, our shareholders, for your continued support of the Company and we look forward to brighter years ahead.

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



J.F. Richard Hew
President & Chief Executive Officer

March 8, 2010

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, 2009. Effective January 1, 2009 the Company changed its fiscal year end date from April 30 to December 31. The financial statements for the twelve months ended December 31, 2009 are compared to the financial statements for the eight months ended December 31, 2008, referred to as the 'Transitional Period'. 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 2009 financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation the amount and timing of the recovery or refund would not be subject to regulatory approval.

CUC includes forward-looking statements in this material. Forward looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plan", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedule", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward-looking statements are based on underlying assumptions and management's beliefs, estimates and opinions, and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Some of the important risks and uncertainties that could affect forward looking statements are described in the MD&A in the section labelled "Business Risks" and include but are not limited to general economic, market and business conditions, regulatory developments and weather. CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties materialise, or should underlying assumptions prove incorrect. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

Financial information is presented in United States dollars unless otherwise specified. The financial statements and MD&A in this annual report were approved by the Audit Committee.

The principal activity of the Company is to generate, transmit and distribute electricity in its licence area of Grand Cayman, Cayman Islands pursuant to a 20-year exclusive Transmission & Distribution Licence (the "T&D Licence") and a 21.5 year non-exclusive Generation Licence (collectively the "Licences") granted by the Cayman Islands Government (the "Government"), which expire in April 2028 and September 2029 respectively.

Corporate and Regulatory Overview

CUC, a vertically integrated utility, operates the only electric utility on Grand Cayman, Cayman Islands, pursuant to a 20-year exclusive T&D Licence and a 21.5 year non-exclusive Generation Licence granted by the Government, which expire in April 2028 and September 2029 respectively.

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

The Licences contain the provision

for a RCAM based on published consumer price indices. CUC's rate-of-return-on-rate base ("RORB") for 2009 was targeted in the 9% to 11% range. The actual 2009 RORB was 7.8%.

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. For the purpose of the rate base calculation, work in progress is not considered a component of fixed assets.

The Electricity Regulatory Authority ("ERA") has the overall responsibility of regulating the electricity industry in the Cayman Islands in accordance with the ERA Law. The ERA oversees all licencees, establishes and enforces licence standards, enforces applicable environmental and performance standards, reviews the proposed RCAM and sets the rate adjustment factors as appropriate.

The ERA also annually reviews and approves CUC's capital investment plan ("CIP"). In 2008, the Company submitted a CIP for the 2009 to 2013 period totalling $246 million, including approximately $72.0 million related to new generation. In March 2009 the ERA approved CUC's 2009 CIP totalling $47.7 million. In October 2009 the Company submitted a CIP for the 2010 to 2014 period totalling $157 million to the ERA for approval. In February 2010, the ERA approved $98.0 million for the 2010 to 2014 period, which excludes approximately $60.0 million related to generation, which will be subject to a competitive bid process.

CUC was advised by the ERA that based on the ERA's review of current economic conditions and revised medium term future load growth projections provided by CUC, it had cancelled the previously initiated 32 megaWatt ("MW") capacity expansion solicitation.

The solicitation had sought 16 MW of additional capacity in 2012 and a further 16 MW in 2013 based on a Certificate of Need submitted by CUC in March of 2009. While the current economic uncertainty makes precise forecasting difficult, CUC believes that, based on the low number of large construction project starts and the general state of the Cayman Islands economy, growth during the period will not meet the threshold necessary to warrant capacity expansion in the near term. CUC and the ERA will continue to monitor growth indicators and revise forecasts as necessary and the ERA has indicated it will commence a new solicitation at such time as large project starts and general economic recovery indicates a future need for additional capacity. The 2010 to 2014 CIP reflects CUC's lower growth projections and delay of the 32 MW of generation capacity.

A licence fee of 1%, payable to

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, 2009	Eight months ended December 31, 2008	Change	Change %
Electricity sales	**70,491**	46,406	24,085	52%
Fuel factor revenues	**88,318**	103,942	(15,624)	(15%)
Operating revenues	**158,809**	150,348	8,461	6%
Total operating expenses	**134,834**	135,122	(288)	-
Earnings for the period	**20,013**	12,599	7,414	59%
Basic earnings per Class A Ordinary Share	**0.67**	0.45	0.22	49%
Dividends paid per Class A Ordinary Share	**0.660**	0.495	0.165	33%
Peak load gross (MW)	**97.5**	93.8	3.7	4%
Net generation (millions kWh)	**597.4**	400.7	196.7	49%
KiloWatt-hour sales (millions of kWh)	**558.1**	376.6	181.5	48%
Total customers	**25,461**	24,518	943	4%

the Government, is charged on gross revenues, then prorated and applied 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.

Results of Operations

The Company changed its year end from April 30 to December 31 in 2008. This change led to what is referred to as the 2008 Transitional Period spanning May 1, 2008 to December 31, 2008. The following analysis of the results of operations for the twelve months ended December 31, 2009 includes comparisons to the eight month period ended December 31, 2008.

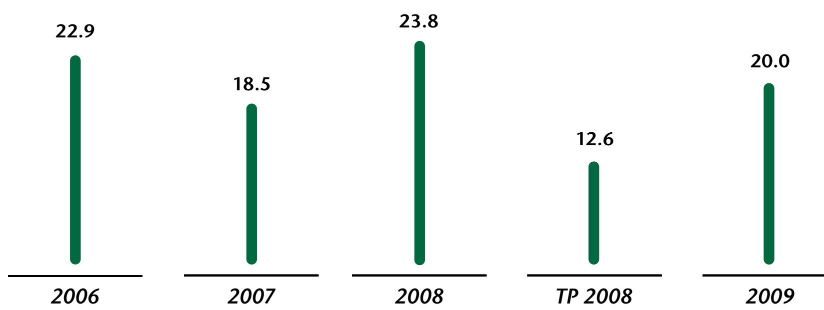
Earnings

Net earnings for the twelve months ended December 31, 2009 were $20.0 million, representing a 59% or $7.4 million increase from net earnings of $12.6 million for the eight months ended December 31, 2008. This increase is due to differing lengths of reporting periods, kWh sales growth and the 2.4% base rate increase in June 2009. Also contributing to higher earnings were decreases in general and administration, transmission and distribution, consumer service and promotion and finance costs in 2009 which were partially offset by increased depreciation and maintenance costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the twelve months ended December 31, 2009 were $18.8 million, or $0.67 per Class A Ordinary share, as compared to $11.9 million, or $0.45 per Class A Ordinary Share for the eight months ended December 31, 2008. An additional accrual was made regarding payment to preference shareholders in 2009 of $0.3 million in order to align dividend payments with the calendar year end. This additional accrual affected the earnings on Class A Ordinary Shares.

Earnings

($ millions)



TP - Transitional Period

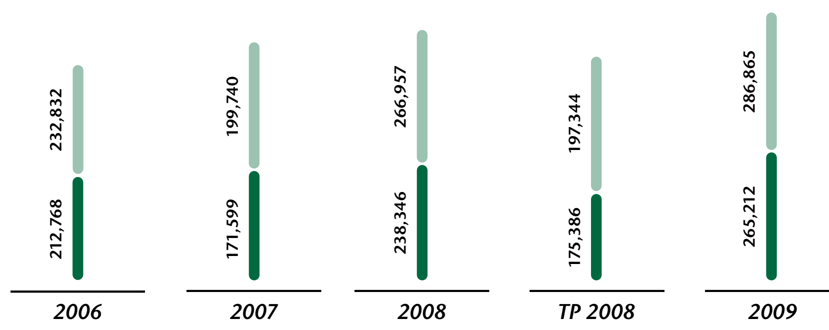
Sales

KiloWatt-hour sales for the twelve months ended December 31, 2009 totalled 558.1 million in comparison to 376.6 million for the eight months ended December 31, 2008 - an increase of 48%. Effecting the sales variance is the comparison of two differing periods and new customer connections.

Total customers as at December 31, 2009 were 25,461, an increase of 4% compared to 24,518 customers as at December 31, 2008. An average of 79 customers were connected per month for the twelve months ended December 31, 2009 as compared to an average of 97 customers per month for the eight months ended December 31, 2008.

Residential and Commercial Sales

(Sales in thousands kWh)



TP - Transitional Period

Operating Revenues

Operating revenues increased 6% to $158.8 million for the twelve months ended December 31, 2009 from $150.3 million for the eight months ended December 31, 2008 due primarily to the differing reporting periods partially offset by the impact of lower fuel costs.

Electricity sales revenue increased $24.1 million in the twelve months ended December 31, 2009 to $70.5 million when compared to electricity sales revenues of $46.4 million for the eight months ended December 31, 2008. Electricity sales revenues increased due to a comparison of differing reporting periods, the 2.4% base rate increase in June 2009 and increased customer numbers in 2009 driving higher kWh sales.

Fuel factor revenues for the twelve months ended December 31, 2009 totalled $88.3 million, a 15% decrease from the $103.9 million in fuel factor revenues for the eight months ended December 31, 2008. Fuel factor revenues decreased due to a significant decrease in the cost of fuel (see the *"Power Generation"* section for further details). The average Fuel Cost Charge rate per kWh charged to consumers for the twelve months ended December 31, 2009 was $0.17, a 35% decline from $0.26 per kWh for the eight months ended December 31, 2008. CUC passes through 100% of fuel costs to consumers on a two-month lag basis with no mark-up.

Sales and Customer Highlights

	Twelve months ended December 31, 2009	Eight months ended December 31, 2008
Customers *(number)*		
Residential	**21,701**	20,847
Commercial	**3,760**	3,671
Total Customers	**25,461**	24,518
Sales *(in thousands kWh)*		
Residential	**265,212**	175,386
Commercial	**286,865**	197,344
Other	**5,985**	3,835
Total sales	**558,062**	376,565
Revenues *(in thousands of $)*		
Residential	**34,143**	21,980
Commercial	**34,986**	23,490
Other (street light, etc.)	**1,362**	936
Fuel factor	**88,318**	103,942
Total operating revenues	**158,809**	150,348

Operating Expenses

Total operating expenses for the twelve months ended December 31, 2009 were $134.8 million as compared to operating expenses of $135.1 million for the eight months

Operating Expenses

($ thousands)

	Twelve months ended December 31, 2009	Eight months ended December 31, 2008	Change	Change %
Power generation expenses	**92,691**	106,940	(14,249)	(13%)
General and administration	**9,606**	6,813	2,793	41%
Consumer service and promotion	**1,525**	1,109	416	38%
Transmission and distribution	**2,660**	1,780	880	49%
Depreciation	**18,786**	12,098	6,688	55%
Maintenance	**9,142**	6,248	2,894	46%
Amortization on intangible assets	**424**	134	290	216%
Total operating expenses	**134,834**	135,122	(288)	-

ended December 31, 2008. The major contributing factors to the decrease in operating expenses are lower power generation expenses, which are comprised predominantly of fuel costs, and cost saving measures.

Power Generation

Power generation costs decreased $14.2 million, or 13%, to $92.7 million for the twelve months ended December 31, 2009, when compared to $106.9 million for the eight months ended December 31, 2008. The decrease is due to lower fuel costs.

The Company's average price per imperial gallon ("IG") of fuel for the twelve months ended December 31, 2009 decreased to $2.77, compared to $4.45 for the eight months ended December 31, 2008.

The Company's average price per IG of lube for the twelve months ended December 31, 2009 increased to $12.96, compared to $12.31 for the eight months ended December 31, 2008.

Diesel fuel and lube oil costs are recovered completely from consumers within the line items of fuel factor revenues and electricity sales. Dusk to dawn light rates include a fuel cost adjustment mechanism and revenues from this rate class are included in electricity sales. The fuel portion of these sales for the twelve months ended December 31, 2009 totalled $1.0 million as compared to $0.9 million for the eight months ending December 31, 2008.

The Fuel Tracker Account (refer to Note 5 in 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 the twelve months ended December 31, 2009 totalled $9.6 million, an increase of $2.8 million from $6.8 million for the eight months ended December 31, 2008 due mainly to the differing reporting periods. Also affecting the increase were higher insurance costs during 2009 which were attributable in part to coverage for the new 16 megaWatt ("MW") generating unit. Partially reducing these increases were General Expenses Capitalised ("GEC") which totalled to $1.5 million for the twelve months ended December 31, 2009 an increase of $0.9 million when compared to $0.6 million for the eight months ended December 31, 2008.

Consumer Services and Promotion ("C&P")

C&P expenses for the twelve months ended December 31, 2009 totalled $1.5 million, an increase of $0.4 million from $1.1 million for the eight months ended December 31, 2008. The majority of this increase is attributable to the differing reporting periods.

Transmission and Distribution ("T&D")

T&D expenses for the twelve months ended December 31, 2009 totalled $2.7 million, an increase of $0.9 million when compared to $1.8 million for the eight months ended December 31, 2008. The majority of this increase was attributable to the differing reporting periods. Also contributing to this increase was a decrease in capitalised labour, which is reflective of the T&D Division's focus on maintenance in 2009.

Depreciation

Depreciation expenses for the twelve months ended December 31, 2009 totalled $18.8 million, an increase of $6.7 million from $12.1 million for the eight months ended December 31, 2008. The majority of this increase is attributable to the differing reporting periods. Additionally, this trend in increasing costs is the result of growth-related additions to fixed assets in prior periods. In September 2009, the new 16 MW generating unit was commissioned and depreciation commenced. Monthly depreciation on this item is $0.07 million. Based upon current capital expenditure

Power Generation Expenses

($ thousands)

	Twelve months ended December 31, 2009	Eight months ended December 31, 2008	Change	Change %
Fuel costs (net of deferred fuel costs)	**86,171**	103,387	(17,216)	(17%)
Lube costs (net of deferred lube costs)	**3,053**	1,492	1,561	105%
Other generation expenses	**3,467**	2,061	1,406	68%
Total power generation expenses	**92,691**	106,940	(14,249)	(13%)

projections, continued increases in depreciation expenses are expected.

Maintenance

Maintenance expenses for the twelve months ended December 31, 2009 totalled $9.1 million, an increase of $2.9 million from $6.2 million for the eight months ended December 31, 2008. The majority of this increase is attributable to the differing reporting periods. Maintenance schedules are driven by the age of generating units as well as the levels of production.

Amortization

Amortization of intangible assets for the twelve months ended December 31, 2009 totalled $0.4 million, an increase of $0.3 million from $0.1 million for the eight months ended December 31, 2008. The increase in costs is the result of the reclassification of software items from Property, Plant and Equipment ("PP&E") to intangible assets. This reclassification was effective December 31, 2008.

Other Income and Expenses

Finance charges for the twelve months ended December 31, 2009 totalled $7.1 million, an increase of $1.9 million from $5.2 million for the eight months ended December 31, 2008. The majority of this difference is attributable to the differing reporting periods.

Under the current T&D Licence there is a provision for an Allowance for Funds Used during Construction ("AFUDC"). This capitalisation of the 'Financing Cost' is calculated by multiplying the Company's cost of capital rate by the average work in progress for each month. The cost of capital rate for 2009 was 10% as agreed with the ERA in accordance with the T&D Licence and is reviewed annually. The cost of capital is based on the average yield of 10-year US Treasury Notes for the preceeding fiscal year. The 2010 cost of capital will be 8.75%.

The AFUDC amount for the twelve months ended December 31, 2009 totalled $4.7 million, a $2.1 million increase when compared to $2.6 million for the eight months ended December 31, 2008. The difference is mainly attributable to differing reporting periods and increased work in progress balances in conjunction with the 2009 generation expansion project finalised in September 2009.

Foreign exchange gains totalled $1.9 million for the twelve months ended December 31, 2009 an increase of 30% when compared to $1.4 million for the eight months ended December 31, 2008. The increase is attributable to increased private currency exchanges and the effect of differing reporting periods.

Other income totalled $1.3 million for the twelve months ended December 31, 2009 a 14% increase when compared to $1.1 million for the eight months ended December 31, 2008. This difference is primarily attributable to the differing reporting periods.

The Economy

The global economy experienced difficulties in 2009 and the Cayman Islands were not immune to the effect of the recession being experienced worldwide. The Cayman Islands Government's 2009/2010 Annual Plan and Estimates Report provided Government forecasts for 2009 and 2010. According to the report indicators in the first six months of 2009 show signs of an unprecedented fall in Gross Domestic Product ("GDP") during the year. Growth of GDP slowed to 1.1% in

Other Income and Expenses

($ thousands)

	Twelve months ended December 31, 2009	Eight months ended December 31, 2008	Change	Change %
Total interest costs	**(11,739)**	(7,748)	(3,991)	(52%)
AFUDC	**4,668**	2,595	(2,073)	80%
Total finance charges	**(7,071)**	(5,153)	(1,918)	37%
Foreign exchange gains	**1,852**	1,420	432	30%
Other income	**1,257**	1,106	151	14%
Total net other expenses	**(3,962)**	(2,627)	(1,335)	51%

2008 as compared to 4.4% in 2007. The modest growth was supported on the demand side by growth in government consumption and capital spending and demand for stay-over tourism services. The GDP growth rate for 2009 was forecasted to contract by 5.7%. Local inflation was projected at negative 0.1% in 2009 as pressures on the local price level were eased by the downward inflation path in the United States ("US"), the main market for goods consumed in the Cayman Islands.

The Cayman Islands have two main industries; tourism and financial services. Government stated in its assumptions that economic recovery among advanced economies is expected to boost consumer confidence and employment in the second half of 2010. The spill-over effects on the Cayman Islands is expected to benefit local businesses.

The tourist demographic is largely comprised of visitors from the US. In 2009, 79% of air arrivals to the Cayman Islands were citizens of the US. As such the US economy largely impacts that of the Cayman Islands. There was a 1% increase in air arrivals in the fourth quarter of 2009 when compared to the same period last year. However, overall 2009 air arrivals were down 10% from 2008 air arrivals, and cruise arrivals were down 2% from 2008.

The Company expects that the current global economy will continue to have a negative impact on tourist arrivals to the Cayman Islands. Air arrivals have a direct impact on the Company's sales growth as these visitors are stay-over visitors who occupy the hotels. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

In 2009 the Foreign and Commonwealth Office ("FCO") of the United Kingdom Government, stated that in order for the Cayman Islands to borrow funds, additional revenue measures had to be introduced. The introduction of these revenue measures are expected to have a positive impact on Government's financial situation overall, but there are expected to be some negative repercussions on the local economy.

The revenue measures proposed by Government were approved by the FCO. Upon receiving this approval Government proceeded to raise $312 million through a 10-year bond offer launched on the international markets on November 18, 2009. The notes have a coupon of 5.95% per year.

It is Government's belief that unlike credit difficulties abroad, the retail banking sector in the Cayman Islands will maintain its robust supply of credit to businesses and households. As at December 31, 2009 the Investments and Securities Division of the Cayman Islands Monetary Authority had supervisory responsibility for 9,523 mutual funds and the Banking Supervision Division had supervisory responsibility for 266 banks. Full mutual fund administrators as at December 31, 2009 decreased to 97 from 102 and restricted mutual fund administrators decreased to 42 from 49 when compared to December 31, 2008.

As of June 2009, Moody's rated the Cayman Islands as stable with a rating of Aa3. Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honoured as promised. Such ratings reflect both the likelihood of default and the probability of a financial loss suffered in the event of default. The rating assigned to the Cayman Islands is the second highest in the Caribbean region. *(All data is sourced from the Cayman Islands Government, Cayman Islands Economics and Statistics Office, Cayman Islands Monetory Authority and Cayman Islands Department of Tourism websites: www.gov.ky; www.eso.ky; www.cimoney.com.ky and www.caymanislands.ky).*

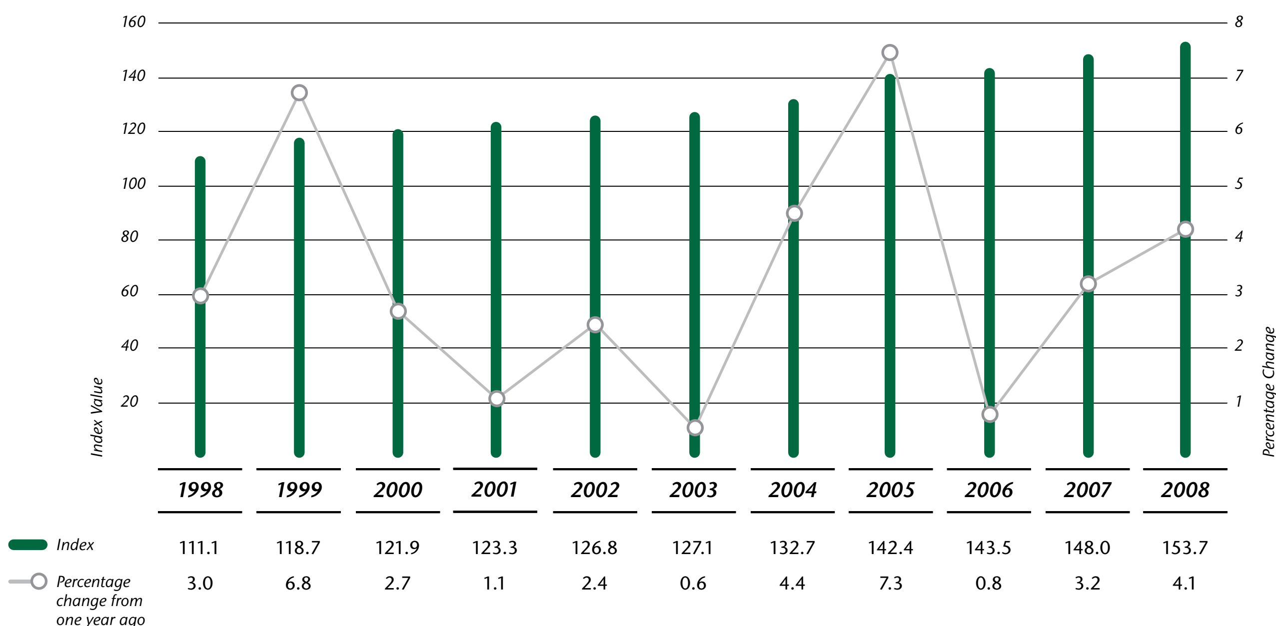
Tourist Arrivals to the Cayman Islands

(for the twelve months ending December 31)

	2009	2008	2007	2006	2005
By air	**271,958**	302,879	291,503	267,258	167,801
By sea	**1,520,372**	1,553,053	1,715,666	1,923,597	1,798,999
Total	**1,792,330**	1,855,932	2,007,169	2,190,855	1,966,800

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

Consumer Price Index



Liquidity and Capital Resources

The table below outlines the summary of cash flow.

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for the twelve months ended December 31, 2009, was $42.8 million, an increase of $19.4 million from $23.4 million for the eight months ended December 31, 2008. This increase is mainly attributable to an increase in earnings of $7.4 million from $12.6 million to $20.0 million.

Investing Activities:

Cash used in investing activities totalled $42.7 million for the twelve months ended December 31, 2009 an increase of $14.7 million from $28.0 million for the eight months ended December 31, 2008. This increase is attributable to increased capital related expenditures the majority of which results from the completion of the 2009 Generation Expansion Project.

Financing Activities:

Cash proceeds from financing activities totalled $3.3 million for the twelve months ended December 31, 2009 as compared to $4.7 million from financing activities for the

Summary of Cash Flow

($ thousands)

	Twelve months ended December 31, 2009	Eight months ended December 31, 2008	Change	Change %
Beginning cash	1,431	1,268	163	13%
Cash provided by/(used in):				
Operating activities	42,845	23,443	19,402	83%
Investing activities	(42,665)	(27,986)	(14,679)	52%
Financing activities	3,316	4,706	(1,390)	(30%)
Ending cash	4,927	1,431	3,496	244%

eight months ended December 31, 2008. This decrease in cash is mainly attributable to debt proceeds of $41.5 million in 2009 as compared to $16.5 million in 2008 in addition to the proceeds from a rights offering which was completed in the eight months ended December 31, 2008. Share purchases under the rights offering totalled $28.2 million. Impacting the decrease in cash proceeds from financing activities was the repayment of debt, including the overdraft, totalling $19.9 million in 2009 as compared to $26.8 million during the eight months ended December 31, 2008. Dividends paid in 2009 totalled to $19.8 million as compared to $14.1 million for the eight months ended December 31, 2008.

Transactions with Related Parties

Miscellaneous payables totalling $0.02 million was owed to Fortis Inc., the majority shareholder of CUC, in relation to fees incurred by Fortis on behalf of CUC during the organisation of the group insurance policy.

Miscellaneous receivables from Fortis Turks & Caicos, a member of the Fortis Group of companies, totalling $0.09 million were outstanding at December 31, 2009. The receivable relates to labour and related charges in regards to hurricane assistance.

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at December 31, 2009, 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

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	-	-	-
MAN Diesel SE generation expansion contract	0.2	0.2	-	-	-
Total	200.8	22.5	27.7	36.4	114.2

Significant Changes in Balance Sheets

(from December 31, 2008 to December 31, 2009)

Balance Sheet Account	Increase/ (Decrease) *($ millions)*	Explanation
Cash	3.5	Increase due to cash used in investing activities of $42.7 million offset by cash provided by operating activities of $42.8 million and cash provided by financing activities of $3.5 million.
Accounts receivable - Trade	(5.3)	Decrease due to lower fuel factor billings as a result of decreasing fuel prices.
Regulatory assets	3.5	In accordance with the regulatory environment the fuel tracker account is classified as a regulatory asset. This amount represents fuel costs incurred by the Company that are recoverable from the customer.
Property, plant and equipment	23.4	Net increase is comprised of capital expenditures of $42.2 million and depreciation expense of $18.8 million.
Bank overdaft	(4.2)	Decrease in bank overdraft with funds received from debt issue.
Accounts payable and accrued expenses	1.5	Change mainly attributable to increase in accrued expenses.
Long-term debt	25.8	Increase due to $40.0 million debt issue reduced by principal repayments made in June and portions allocated to current debt.
Share premium	1.6	The Company issued 190,514 shares in 2009 through its share purchase plans.

contract is for three years terminating in April 2010. The contract contains an automatic renewal clause for the years 2010 through to 2012. Effective April 2009 the 2010 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. The approximate quantities per the contract in millions of IGs: 2010 - 25.3.

Capital Resources

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

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

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

A portion 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, 2009, the Company was in compliance with all debt covenants.

The Company received $30.0 million of a $40.0 million debt issue in May 2009; the remaining $10.0 million was received in July 2009. The Company also repaid $14.0 million of long-term debt in June 2009. As a result, the percentage of debt in the Company's capital structure increased from 51% at December 31, 2008 to 54% at December 31, 2009.

The Company also funds obligations utilising credit facilities and income from operations.

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

S&P A/Negative
DBRS A (low)

The S&P rating is in relation to long-term corporate credit and unsecured debt while the DBRS rating relates to senior unsecured debt.

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

Credit Facilities

The Company has $32.9 million of unsecured credit financing facilities with the Royal Bank of Canada ("RBC") (see *"Credit Facilities"* table below). Of the total, $24.0 million was available at December 31, 2009.

Capital Expenditures

Capital expenditures for the twelve months ended December 31, 2009 were $42.7 million, a $14.7 million, or 53% increase from $28.0 million in capital expenditures for the eight

Capital Structure

	December 31, 2009 *($ millions)*	**%**	December 31, 2008 *($ millions)*	%
Total debt	**200.2**	**54**	174.6	51
Shareholder's equity	**171.9**	**46**	170.0	49
Total	**372.1**	**100**	344.6	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

months ended December 31, 2008. The capital expenditures for the twelve months ended December 31, 2009 primarily relate to:

- Distribution system extension and upgrades - $10.2 million.
- Generation system - 2009 Generation expansion - $22.2 million.
- Inventory that has met the criteria of PP&E in accordance with CICA 3031 has been added to work in progress and is included in capital expenditure. For the twelve months ended December 31 2009, a decrease of $0.08 million was allocated to Transmission and a decrease of $0.18 million was allocated to Distribution, totalling a decrease of $0.26 million reallocated from inventories to capital work in progress. As at December 31, 2009, inventories totalling $5.3 million were reclassified to PP&E from inventory on the balance sheet as they are held for the development, construction, maintenance and repair of other PP&E.
- AFUDC and GEC of $6.2 million were capitalised in the twelve months ended December 31, 2009.

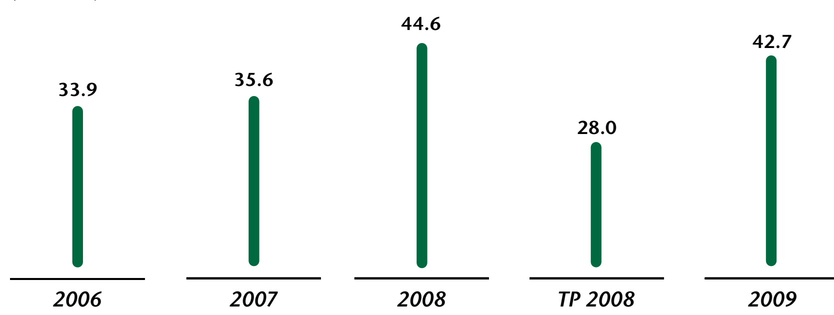
Capital Expenditures

($ millions)

	Twelve months ended December 31, 2009	Eight months ended December 31, 2008
Transmission	**3.7**	4.3
Distribution	**8.7**	11.5
Generation	**29.2**	10.7
Other	**1.1**	1.5
Total	**42.7**	28.0

Capital Expenditures

($ millions)



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 had no such off-balance sheet arrangements as at December 31, 2009.

Business Risks

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

Economic Conditions

The general economic condition of CUC's service area, Grand Cayman, influences electricity sales as with most utility companies. Changes in consumer income, employment and housing are all factors in the amount of sales generated. As the Company supplies electricity to all hotels and large properties, its sales are therefore partially based on tourism and related industry fluctuations.

Weather

CUC's facilities are subject to the effects of severe weather conditions principally during the hurricane season months of June through November. Despite preparations for disasters such as hurricanes, adverse conditions will always remain a risk. In order to mitigate some of this risk, the Company maintains insurance coverage which Management believes is proper and consistent with insurance policies obtained by similar companies.

Environmental Matters

CUC's operations are subject to local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters, land use activities, and the handling, storage, processing, use, emission and disposal of materials and waste products.

In 2004, CUC was initially registered to the ISO 14001 which is the international standard for Environmental Management System ("EMS"). The Company continuously adheres to the standard and anticipates the renewal of the registration in March 2010. In March 2007, the Kyoto Protocol was signed by the Cayman Islands. This framework aims to reduce Greenhouse Gas ("GHG") emissions produced by certain industries. Specific details on the regulations have yet to be released by the Government and are required to assess the financial impact of compliance by the Company with the framework.

Through the EMS, CUC has determined that its exposure to environmental risks is not significant and does not have an impact on CUC's financial reporting including the recording of any Asset Retirement Obligations ("ARO's").

Regulation

The Company operates within a regulated environment. As such the operations of the Company are subject to the normal uncertainties faced by regulated companies. Such uncertainties include approval by the ERA of billing rates that allow a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on rate base assets. The Company's capital expenditure plan requires regulatory approval. There is no assurance that capital projects perceived as required by the management of the Company will be approved.

Insurance - Terms and Coverage

The Company renewed its insurance policy as at July 1, 2009 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include $100 million in property and machinery breakdown insurance and business interruption insurance per annum with a 24-month indemnity period and a 45-day deductible. All T&D assets outside of 1,000 feet from the boundaries of the main Power Plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of $100 million. Each "loss occurrence" is subject to a deductible of $0.5 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of $1.0 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 million limit on property and business interruption (excluding windstorm, earth movement and flood)

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

Defined Benefit Pension Plan

The Company maintains a defined benefit pension plan. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The assumed long-term rate of return on pension plan assets, for the purposes of estimating pension expense for 2010, is 5%. This compares to assumed long-term rates of return of 3% used during 2009. The loss on pension plan assets during 2009 was (5%).

Market driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the assumed return on the assets causing material changes in consolidated pension expense and funding requirements. Net pension expense is impacted by, among other things, the amortization of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other pension assumptions, including the assumed discount rate, may also result in future consolidated contributions to pension plans that differ significantly from current estimates as well as causing material changes in consolidated pension expense. The discount rate assumed for 2010 is 6% compared to the discount rate assumed during 2009 of 6.5%.

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

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

Changes in Accounting Policies

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the new CICA Handbook Section 3064 - Goodwill and Intangible Assets. This Section, which replaced Section 3062, Goodwill and Other Intangible

Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions related to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard 38, Intangible Assets. The standard resulted in a December 31, 2008 reclassification to intangible assets of $2.8 million, with a corresponding reduction in PP&E of $0.8 million and reduction in Other Assets of $2.0 million (see Note 3 and Note 8 in the Notes to Financial Statements for further details).

Rate Regulated Operations

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

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

The assets and liabilities arising from rate regulation do not have specific guidance under a primary source of Canadian GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Section 1000, Financial Statement Concepts. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorised to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that its regulatory assets and liabilities qualify for recognition under Canadian GAAP and this recognition is consistent with US Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation. Therefore, there was no effect on the Company's financial statements as at January 1, 2009 due to the removal of the temporary exemption in section 1100.

Credit Risk and the Fair Value of Financial Assets and Liabilities

Effective January 1, 2009, the Company adopted the new Emerging Issues Committee Abstract ("EIC") 173 of the CICA Handbook, which was issued on January 20, 2009. EIC-173 requires the Company's own credit risk and the credit risk of its counterparties be taken into account in determining the fair value of a financial instrument. There was no effect on the Company's financial statements as a result of adopting EIC-173.

Financial Instruments Disclosure Amendments

Effective for closing periods after September 30, 2009, as required by CICA 3862.27B fair value measurements are to be classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Regarding the fair value hierarchy, as there is no financial instruments measured at fair value on the balance sheet, there was no effect on the Company's financial statements as a result of adopting the change in Section 3862. Regarding the liquidity disclosure new requirement, this has been disclosed within the liquidity risk section.

Future Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

IFRS: In October 2009, the Accounting Standards Board ("AcSB") issued a third and final Omnibus Exposure Draft confirming that publicly accountable enterprises in Canada will be required to apply IFRS, in full and without modification, beginning January 1, 2011.

The Company's expected IFRS transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported on the Company's opening IFRS balance sheet as at January 1, 2010 and amounts reported by the Company for the year ended December 31, 2010.

The Company is continuing to assess the financial reporting impacts of adopting IFRS in 2011. While the impact on future financial position and results of operations are not fully determinable at this time, proposals put forth by the IASB in its July 2009 Exposure Draft "ED/2009/8", if adopted, should reduce earnings' volatility that may otherwise result under IFRS, in the absence of an accounting standard for rate regulated activities.

The Company does anticipate 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 valuation 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, the outcome of the proposed standard on accounting for rate-regulated activities and other changes in IFRS prior to the Company's conversion to IFRS in 2011.

IFRS Conversion Project: Fortis commenced its IFRS Conversion Project in 2007 when it established a formal project governance structure which includes the Fortis Audit Committee, senior management and project teams from each of the Fortis subsidiaries. Overall project governance, management and support are coordinated by Fortis. An independent external advisor has been engaged to assist in the IFRS Conversion Project. Project progress reports are provided to the Company's Audit Committee on a quarterly basis. Fortis has also engaged its external auditors, Ernst & Young, LLP, to review accounting policy determinations as they are arrived at and agreed upon internally by the Company's project team.

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

Phase One: Scoping and Diagnostics, which involved project planning and staffing and identification of differences between current Canadian GAAP and IFRS, was completed in the first half of 2008. The 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 substantially 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 2011 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 2011.

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

On July 23, 2009, the IASB issued a proposed standard on accounting for rate-regulated activities, ED/2009/8, together with a request for public comments by November 20, 2009. Approximately 150 comment letters, including a response by Fortis, were received by the IASB. The IASB's project schedule had indicated that a final standard on rate-regulated activities would be released in the second quarter of 2010. Commentary received on the ED/2009/8, and resulting activities now planned by the IASB, creates uncertainty as to if and when a final standard will be released. If a final standard is released, it may not be until late 2011.

Based on ED/2009/8 as it currently exists, regulatory assets and liabilities arising from activities subject to cost-of-service regulation would be recognised under IFRS based on the measurement of their expected present value. Subject to finalising a methodology for estimating expected present value, the ability to record regulatory assets and liabilities, as proposed, should reduce earnings' volatility that may otherwise result under IFRS in the absence of an accounting standard for rate-

regulated activities, but will result in the requirement to provide enhanced balance sheet presentation and note disclosures. Continued uncertainty as to the final outcome of ED/2009/8, and a final standard on accounting for rate regulated activities under IFRS, has resulted in the Company being unable to reasonably estimate and conclude on the impact on the Company's future financial position and results of operations with respect to differences, if any, in accounting for rate-regulated activities under IFRS versus Canadian GAAP.

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. Final conclusions cannot be reached at this time with respect to the Company's rate regulated entities pending further certainty as to a final IFRS standard on accounting for rate regulated activities.

(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 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.

However, ED/2009/8 proposes that, in the case of qualifying rate regulated entities, amounts approved by the regulator for inclusion in the cost of self-constructed PP&E for rate-making purposes shall also be included in the cost of these assets for financial reporting purposes, even if the entity would not otherwise be permitted to include these costs in the cost of its PP&E based on the application of IAS 16. 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, 2011, the Company currently intends to use the cost model to measure all PP&E subsequent to transition. ED/2009/8 proposes a new transitional exemption for qualifying rate regulated entities that will allow them to use, as of the date of transition, the carrying amount of PP&E under Canadian GAAP as the deemed cost under IFRS. The final extent of the impact of applying IAS 16 by the Company and elective options with respect to accounting for PP&E upon transition to IFRS, cannot be made at this time pending further certainty as to a final standard on accounting for rate-regulated activities.

(b) *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.

In January 2010, the IASB published an Exposure Draft - Measurement of Liabilities in IAS 37 ("ED/2010/1"). The publication of ED/2010/1 is part of a larger IASB project which has been ongoing since 2005 and which is intended to result in a new IFRS to replace IAS 37. ED/2010/1 is open for public comment until April 12, 2010. Based on comments received on

ED/2010/1, and previous tentative decisions by the IASB with respect to other aspects of IAS 37, a final IFRS to replace IAS 37 is planned for release in the third quarter of 2010.

(c) *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.

(d) *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.

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

The Company's other non-regulated assets will be subject to the one-step approach under IFRS for testing and measuring asset impairments which may

Selected Annual Financial Information

($ thousands)

	Twelve months ended December 31, 2009	Eight months ended December 31, 2008	Twelve months ended April 30, 2008
Operating revenues	**158,809**	150,348	175,981
Net earnings	**20,013**	12,599	23,760
Net earnings applicable to common shares	**18,831**	11,894	22,830
Total assets	**399,546**	373,987	368,249
Debt	**200,159**	174,643	184,790
Preference shares	**250**	250	250
Total shareholder's equity	**171,942**	169,994	142,472
Earnings per Class A Ordinary Share	**0.67**	0.45	0.90
Diluted earnings per Class A Ordinary Share	**0.67**	0.45	0.90
Dividends declared per Class A Ordinary Share	**0.660**	0.495	0.660
Dividends declared per Class B Preference Shares included bonus	**4.73**	2.82	3.72

result in some impairments being recognised or reversed under IFRS that would not have been required or permitted under Canadian GAAP.

The Company is continuing to assess the impact of adopting IAS 36. Currently, however, CUC does not expect to incur any material asset impairments upon transition to IFRS.

(e) *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.

(f) *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, in addition to the project on accounting for rate regulated activities, that may result in changes to existing IFRS prior to the Company's conversion to IFRS in 2011. 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 2011 and beyond.

Critical Accounting Estimates

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

Revenue Recognition

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2009, the amount of unbilled revenue recorded in Accounts Receivable - Trade was $4.9 million (December 31, 2008: $0.6 million). The unbilled revenue saw an increase due to the institution of a bill date change. Beginning in January 2009 consumers are billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue as compared to the one week in previous periods.

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, 2009, the amount of estimated kWh sales was 34.3 million kWh. Due to the institution of a bill date change in January 2009 to the beginning of each month it is necessary to accrue for kWh's for accurate reporting.

Employee Future Benefits

The Company's defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation. There are currently two participants in the Company's defined benefit pension plan. The main assumptions 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, 2009, the Company had an accrued benefit liability of $0.1 million (December 31, 2008: $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, 2009, the net book value of the Company's PP&E was $353.4 million compared to $329.9 million as at December 31, 2008, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the 12 months ended December 31, 2009 was $18.8 million and $12.1 million for the eight months ended December 31, 2008. Due to the value of the Company's PP&E, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

The Company undertook a full review of the estimated useful lives of PP&E during the 2009 fiscal year. The review was aimed at determining whether the estimated useful lives of assets in place remained valid. As a result of the review, estimated useful lives of certain PP&E were changed based on industry guidelines and professional input. The impact of the change in useful lives on depreciation and accumulated depreciation was a decrease of $0.3 million affecting the PP&E from January 1, 2009.

2009 Fourth Quarter Results

Net earnings for the three months ended December 31, 2009 were $5.9 million, representing an increase of 211% or $4.0 million from net earnings of $1.9 million for the two months ended December 31, 2008. This increase is due to differing lengths of reporting periods and kWh sales growth for the period as compared to the two months ended December 31, 2008. November and December 2009 were both warmer than average. Also contributing to the increase in earnings is the 2.4% base rate increase in June 2009. November and December 2008 were negatively impacted by cooler than average temperatures, higher than average rainfall and the passage of Hurricane Paloma.

KiloWatt-hour sales for the three months ended December 31, 2009 totalled 142.4 million in comparison to 81.6 million for the two months ended December 31, 2008; an increase of 75%. Sales were positively impacted by hot and dry weather conditions that effected customer air conditioning load. The average temperature for the three months ended December 31, 2009 was 3.0 degrees Fahrenheit higher than the average temperature experienced for the two months ended December 31, 2008 and there was an average of 0.4 inches less rainfall per month in the three months ended December 2009 than in the two months ended December 2008. Also affecting the sales variance is the comparison of two differing periods.

Total operating expenses for the three months ended December 31, 2009 increased 19% to $36.8 million from $30.8 million for the two months ended December 31, 2008. The major contributing factor to the increase in operating expenses is differing lengths of the reporting periods offset by decreased fuel costs.

Cash flow provided by operations, after working capital adjustments, for the three months ended December 31, 2009, was $11.6 million, an increase of $3.9 million from $7.7 million for the two months ended December 31, 2008. Cash used in investing activities totalled $6.5 million for the three months ended December 31, 2009 a decrease of $0.5 million from $7.0 million for the two months ended December 31, 2008. This decrease is attributable to decreased capital related expenditures. Cash utilised in financing activities totalled $4.6 million for the three months ended December 31, 2009 an increase of $4.6 million from $0 million utilised for the two months ended December 31, 2008.

Capital expenditures for the three months ended December 31, 2009 were $6.5 million, a $0.3 million, or 4% decrease from $6.8 million in capital expenditures for the two months ended December 31, 2008. The major capital expenditure project for the fourth quarter related to distribution system extension and upgrades.

Quarterly Results

The table "Quarterly Results" on page 24, summarises unaudited quarterly information for each of the eight quarters ended April 30, 2008 through December 31, 2009. This information has been obtained from CUC's unaudited interim Financial Statements, which, in the opinion of Management, have been prepared in accordance with Canadian GAAP.

These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

December 2009/December 2008

Net earnings for the three months ended December 31, 2009 were $5.9 million, representing an increase of 211% or $4.0 million from net earnings of $1.9 million for the two months ended December 31, 2008. This increase is due to differing lengths of reporting periods and kWh sales growth for the period as compared to the two months ended December 31, 2008. November and December 2009 were both warmer than average. Also contributing to the increase in earnings is the 2.4% base rate increase in June 2009.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the three months ended December 31, 2009 were $5.5 million, or $0.20 per Class A Ordinary Share, as compared to $1.9 million, or $0.08 per Class A Ordinary Share for the two months ended December 31, 2008. An additional accrual was made regarding payment to preference shareholders in 2009 of $0.3 million in order to align dividend payments with the calendar year end, this additional accrual affected the earnings on Class A Ordinary Shares.

September 2009/October 2008

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

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

June 2009/July 2008

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

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the three months ended June 30, 2009 were $4.9 million, or $0.175 per Class A Ordinary Share, as compared to $4.7 million, or $0.190 per Class A Ordinary Share for the three months ended July 31, 2008.

March 2009/April 2008

Net earnings for the three months ended March 31, 2009 were $2.4 million, representing a 45% or $2.0 million decrease from net earnings

Quarterly Results

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

	Operating Revenue	Net Earnings	Income applicable to Class Ordinary A Share	Earnings per Class A Ordinary Share	Diluted earnings per Class A Ordinary Share
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
December 31, 2008 *	32,986	1,865	1,865	0.08	0.08
October 31, 2008	63,193	5,424	5,311	0.18	0.18
July 31, 2008	54,170	5,310	4,717	0.19	0.19
April 30, 2008	44,219	4,413	4,300	0.17	0.17

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

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

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

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 the 12 months ending December 31, 2009; and information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarised 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, 2009.

Internal Controls over Financial Reporting ("ICFR")

The CEO and CFO of the Company, together with Management, have established and maintained the Company's internal control over financial reporting (ICFR), as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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, 2009.

There has been no change in the Company's ICFR that occurred during the period beginning on October 1, 2009 and ended on December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

In February 2010, the ERA approved $98.0 million in capital spending for the 2010 to 2014 period. The submitted plan was formatted to take into consideration anticipated reductions in growth in the upcoming periods due to the impact of the global financial crisis on the tourism, financial and construction sectors of the Cayman Islands which the Company continues to monitor. As a result of CUC's revised lower growth projections the ERA has cancelled the 2012/2013 generation expansion solicitation process. The ERA and CUC will continue to monitor growth indicators for future generation needs.

The Company has shifted focus from responding to growth to controlling cost in light of the economic situation.

Outstanding Share Data

At March 8, 2010, the Company had issued and outstanding 28,277,139 Class A Ordinary Shares and 250,000 9% cumulative Participating Class B Preference Shares.

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

Letitia T. Lawrence
Vice President Finance & Chief Financial Officer

March 8, 2010

Management's Responsibility for Financial Reporting

The accompanying Financial Statements of Caribbean Utilities Company, Ltd. and all information in the 2009 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 2009 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.

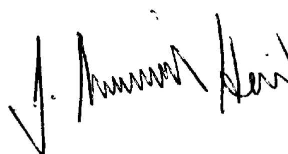
The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee that is composed entirely of outside directors. The Audit Committee meets with the external auditors, with and without management present, to discuss the results of the audit, the adequacy 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 2009 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.

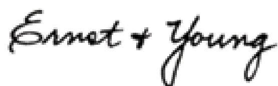
Auditors' Report

To the Shareholders of Caribbean Utilities Company, Ltd.

We have audited the balance sheets of Caribbean Utilities Company, Ltd. (the "Company") as at December 31, 2009 and 2008, and the statements of earnings and comprehensive income, retained earnings and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008, and the results of its operations and cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.



Ernst & Young
Grand Cayman, Cayman Islands

February 26, 2010

Balance Sheets

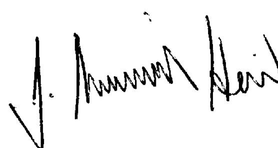
(Expressed in thousands of United States dollars)

	Note	**As at December 31, 2009 $**	As at December 31, 2008 $
Assets			
Current Assets			
Cash and cash equivalents		**4,927**	1,431
Accounts receivable	*4*	**11,571**	16,879
Regulatory assets	*5*	**21,996**	18,493
Inventories	*6*	**2,702**	2,485
Prepayments		**2,112**	1,914
		43,308	41,202
Property, plant and equipment	*3, 7*	**353,359**	329,930
Other assets		**36**	41
Intangible assets	*3, 8*	**2,843**	2,814
Total Assets		**399,546**	373,987
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank overdraft		**-**	4,158
Accounts payable and accrued expenses		**22,510**	21,048
Regulatory liabilities	*5*	**972**	359
Short-term debt	*9*	**8,000**	8,000
Current portion of long-term debt	*10*	**14,000**	14,266
Consumers' deposits and advances for construction		**3,963**	3,785
		49,445	51,616
Long-term debt	*10*	**178,159**	152,377
Total Liabilities		**227,604**	203,993
Shareholders' Equity			
Share capital	*12*	**1,933**	1,922
Share premium	*12*	**73,729**	72,092
Contributed surplus	*13*	**325**	279
Retained earnings		**95,955**	95,701
Total Shareholders' Equity		**171,942**	169,994
Total Liabilities and Shareholders' Equity		**399,546**	373,987

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, 2009 $	Eight months ended December 31, 2008 $
Operating Revenues			
Electricity sales		**70,491**	46,406
Fuel factor		**88,318**	103,942
Total Operating Revenues		**158,809**	150,348
Operating Expenses			
Power generation		**92,691**	106,940
General and administration		**9,606**	6,813
Consumer service and promotion		**1,525**	1,109
Transmission and distribution		**2,660**	1,780
Depreciation		**18,786**	12,098
Maintenance		**9,142**	6,248
Amortization of intangible assets		**424**	134
Total Operating Expenses		**134,834**	135,122
Operating Income		**23,975**	15,226
Other Income/(Expenses)			
Finance charges	*19*	**(7,071)**	(5,153)
Foreign exchange gain	*18*	**1,852**	1,420
Other income		**1,257**	1,106
Total Net Other (Expenses)		**(3,962)**	(2,627)
Earnings and Comprehensive Income for the Period		**20,013**	12,599
Preference dividends paid on Class B shares		**(1,182)**	(705)
Earnings on Class A Ordinary Shares		**18,831**	11,894
Weighted average number of Class A Ordinary Shares issued and fully paid	*14*	**28,160**	26,722
Basic Earnings per Class A Ordinary Share	*14*	**0.67**	0.45
Diluted Earnings per Class A Ordinary Share	*14*	**0.67**	0.45
Dividends declared per Class A Ordinary Share		**0.660**	0.495

Statements of Retained Earnings

(Expressed in thousands of United States dollars)

	Twelve months ended December 31, 2009 $	Eight months ended December 31, 2008 $
Balance at beginning of period	**95,701**	97,243
Earnings for the period	**20,013**	12,599
Dividends	**(19,759)**	(14,141)
Balance at end of period	**95,955**	95,701

See accompanying Notes to Financial Statements

Statements of Cash Flows

(Expressed in thousands of United States dollars)

	Twelve months ended December 31, 2009 $	Eight months ended December 31, 2008 $
Operating Activities		
Earnings for the period	**20,013**	12,599
Items not affecting cash:		
Depreciation	**18,786**	12,098
Amortization of intangible assets	**424**	134
Amortization of deferred financing costs	**149**	114
Stock-based compensation	**46**	29
Non-cash pension expenses	**30**	(33)
	39,448	24,941
Net change in non-cash working capital balances relating to operations	**6,286**	(5,228)
Net change in regulatory deferrals	**(2,889)**	3,730
Cash flow related to operating activities	**42,845**	23,443
Investing Activities		
Purchase of property, plant and equipment	**(42,214)**	(27,981)
Costs related to intangible assets	**(451)**	(13)
Proceeds on sale of property, plant and equipment	**-**	8
Cash flow related to investing activities	**(42,665)**	(27,986)
Financing Activities		
Proceeds from debt financing	**41,500**	16,500
Repayment of debt	**(15,915)**	(26,875)
(Decrease)/Increase in bank overdraft	**(4,158)**	187
Dividends paid	**(19,759)**	(14,141)
Net proceeds from share issues	**1,648**	29,035
Cash flow related to financing activities	**3,316**	4,706
Increase in net cash	**3,496**	163
Cash and cash equivalents - beginning of period	**1,431**	1,268
Cash and cash equivalents - end of period	**4,927**	1,431
Supplemental disclosure of cash flow information:		
Interest paid during the period	**11,260**	11,075

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 Licence ("T&D Licence") and a 21.5 year non–exclusive Generation Licence (collectively the "Licences") with the Cayman Islands Government ("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 $0.60 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% is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month.

Year End Change

Effective January 1, 2009, CUC is reporting on a calendar year basis as opposed to the fiscal year of May 1 to April 30 previously in place. This change led to what is referred to as the "2008 Transitional Period" spanning May 1, 2008 to December 31, 2008.

Rate Regulated Operations

CUC's base rates are designed to recover all non-fuel and regulatory costs and include per kWh electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the rate cap and adjustment mechanism ("RCAM"). In June 2009 the base rates were increased by 2.4%. All fuel and lubricating oil costs are passed through to customers without markup as a per kWh charge.

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

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.

(Expressed in thousands of United States dollars)

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.

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.

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.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand, bank demand deposits and bank fixed deposits maturing within three months.

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
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, general expenses capitalised and allowance for funds used during construction. 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 (general expenses capitalised or "GEC"). Per the licence agreements these costs may not exceed 10% of non-fuel operating costs. 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 allowance for funds used during construction ("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 capitalized 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

(Expressed in thousands of United States dollars)

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

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.

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 are 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

Employee Long Service Bonus Plan
CUC recognises employees' loyalty and long service by making awards once a year to those who have, in the preceding 12 months, completed 10 years of continuous service, and every five continuous years of service thereafter. These employees receive 10 CUC Class A Ordinary shares for each year of service.

(Expressed in thousands of United States dollars)

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 recording 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.

Employee Benefit Plans
The Company maintains defined contribution pension plans for its employees and defined benefit pension plan for the retired Chairman of the Company's Board of Directors as well as the President and Chief Executive Officer. 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 and (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 2009

Goodwill and Intangible Assets
Effective January 1, 2009, the Company adopted the new CICA Handbook Section 3064 - *Goodwill and Intangible Assets*. This Section, which replaced Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Effective January 1, 2009 in accordance with Section 3064, the Company now separately recognises all intangible assets. Computer Software costs were previously recognised under PP&E and all other intangible assets were previously included with Other Assets. The standard resulted in a December 31, 2008 reclassification to intangible assets of $2.8 million, with a corresponding reduction in PP&E of $0.8 million and reduction in Other Assets of $2.0 million. Also, amortization expense has been reclassified accordingly for $0.1 million in the eight months ended December 31, 2008.

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

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

(Expressed in thousands of United States dollars)

The assets and liabilities arising from rate regulation do not have specific guidance under a primary source of Canadian GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Section 1000, *Financial Statement Concepts*. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorised to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that its regulatory assets and liabilities qualify for recognition under Canadian GAAP and this recognition is consistent with United States Accounting Standard Codification 980 Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*. Therefore, there was no effect on the Company's financial statements as at January 1, 2009 due to the removal of the temporary exemption in Section 1100.

Credit Risk and the Fair Value of Financial Assets and Liabilities
Effective January 1, 2009, the Company adopted the new Emerging Issues Committee Abstract ("EIC") 173 of the CICA Handbook, which was issued on January 20, 2009. EIC-173 requires the Company's own credit risk and the credit risk of its counterparties be taken into account in determining the fair value of a financial instrument. There was no effect on the Company's financial statements as a result of adopting EIC-173.

Financial Instruments Disclosure Amendments
Effective for closing periods after September 30, 2009, as required by CICA 3862.27B fair value measurements are to be classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Regarding the fair value hierarchy, as there is no financial instruments measured at fair value on the balance sheet, there was no effect on the Company's financial statements as a result of adopting the change in Section 3862. Regarding the liquidity disclosure new requirement, this has been disclosed within the liquidity risk section.

4. Accounts Receivable

Accounts Receivable

($ thousands)

	As at December 31, 2009	As at December 31, 2008
Billings to consumers	**5,650**	12,676
Unbilled revenue	**4,890**	2,105
Other receivable	**956**	1,988
Employee Share Purchase Plan	**75**	110
Total accounts receivable	**11,571**	16,879

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. A bill date change took place in January 2009, and as a result consumers are now billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue as compared to the one week in previous periods.

Other Receivables
Other receivables relate to amounts due outside of the normal course of operations. Items in other receivables 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.

(Expressed in thousands of United States dollars)

5. Regulatory Assets and Liabilities

Assets and Liabilities

($ thousands)

	Description	**As at December 31, 2009**	As at December 31, 2008
Regulatory assets	Fuel tracker account (a)	**21,996**	18,493
Regulatory liabilities	Government and Regulatory Tracker account (b)	**(972)**	(359)

(a) *Fuel Tracker Account:* The 2008 T&D licence establishes a fuel tracker mechanism to ensure the Company and the consumers neither gain nor lose from the pass through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from or reimbursed to the consumers. The receivable or payable value represents a regulatory asset or liability. The net position of the fuel tracker accounts fluctuates monthly and is affected by fuel prices and electricity consumption. On a quarterly basis, an adjustment is made to the fuel charge billed to consumers to reflect the net position of the receivable and payable accounts. In the absence of rate regulation and governmental controls the balance in the fuel tracker account would have been expensed as opposed to deferred for two months to allow for regulatory review and earnings for the year ended December 31, 2009 would have been $3.5 million lower.

(b) *Government and Regulatory Tracker Account*: A licence fee of 1% of gross revenues applies to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per kWh basis. Additionally, a regulatory fee of ½ of 1% is charged on gross revenues then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The tracker account is the actual fee incurred less the amount of funds received from consumers. The per kWh charge is then adjusted quarterly for the balance of this account.

6. Inventories

Inventories

($ thousands)

	As at December 31, 2009	As at December 31, 2008
Fuel	**2,356**	1,916
Line spares	**100**	118
Other	**246**	451
Total	**2,702**	2,485

The inventory amounts expensed for the year ended December 31, 2009 totalled $93.1 million which includes $92.6 million in fuel and lube costs and $0.5 million in line spares.

(Expressed in thousands of United States dollars)

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

Property, Plant and Equipment

($ thousands)

	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	24,077
Property, plant and equipment	514,669	161,310	353,359

	Cost	Accumulated Depreciation	Net Book Value December 31, 2008
T&D	211,392	54,806	156,586
Generation	212,559	71,241	141,318
Other:			
Land	11,399	-	11,399
Buildings	18,520	7,668	10,852
Equipment, motor vehicles and computers	18,696	8,921	9,775
Total other	48,615	16,589	32,026
Property, plant and equipment	472,566	142,636	329,930

Included in PP&E are a number of capital projects in progress with a total cost to date of $22.6 million (December 31, 2008: $31.2 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, 2008:$4.7 million). In addition, line inventory with a cost of $5.3 million (December 31, 2008: $5.6 million) is included in T&D. Engine spares with a net book value of $14.0 million (December 31, 2008: $13.5 million) and engine spare parts less provision for obsolescence of $11.8 million (December 31, 2008: $11.1 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 2009 was 10% and will be adjusted annually. As a result, during the year ended December 31, 2009, the Company recognised $4.7 million in AFUDC. The Company recognised an amount of $2.6 million for the 2008 Transitional Period ended December 31, 2008 under the provision for AFUDC.

The Company capitalised an amount of $1.5 million (December 31, 2008: $0.6 million) for the year ended December 31, 2009 under the provision for GEC (see Note 1).

(Expressed in thousands of United States dollars)

8. Intangible Assets

Intangible Assets

($ thousands)

	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

	Cost	Accumulated Amortization	Net Book Value December 31, 2008
Deferred licence renewal costs	1,845	61	1,784
Computer software	3,419	2,570	849
Other intangible assets in progress	181	-	181
Total	5,445	2,631	2,814

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.

9. Short-Term Financing

The Royal Bank of Canada ("RBC") credit facility agreement provides for $32.9 million and the total available was $24.0 million at December 31, 2009.

Short-Term Financing

($ thousands)

Credit Facilities	Total Credit Financing Facilities	Total Utilised December 31, 2009	Total Available December 31, 2009
Corporate credit card line *	300	300	-
Letters of credit	595	595	-
Operating, revolving line of credit	7,500	-	7,500
Catastrophe standby loan	7,500	-	7,500
Demand loan facility - interim funding of capital expenditures	17,000	8,000	9,000
Total	32,895	8,895	24,000

* *Included in Accounts payable and accrued expenses*

(Expressed in thousands of United States dollars)

10. Long-Term Debt

Long-Term Debt

($ thousands)

	As at December 31, 2009	As at December 31, 2008
3.00% European Investment Bank #3 due 2009	-	266
8.47% Senior Unsecured Loan Notes due 2010	**1,500**	3,000
6.47% Senior Unsecured Loan Notes due 2013	**10,000**	12,500
7.64% Senior Unsecured Loan Notes due 2014	**15,000**	18,000
6.67% Senior Unsecured Loan Notes due 2016	**21,000**	24,000
5.09% Senior Unsecured Loan Notes due 2018	**36,000**	40,000
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**	-
	193,500	167,766
Less: Current portion of long-term debt	**(14,000)**	(14,266)
Less: Deferred debt issue costs	**(1,341)**	(1,123)
	178,159	152,377

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

Year	$
2010	14,000
2011	15,500
2012	15,500
2013	19,500
2014	17,000
2015 and later	112,000

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, 2009, the Company was in compliance with all debt covenants.

11. Capital Management

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

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

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)

Capital Structure

	December 31, 2009 ($ thousands)	%	December 31, 2008 ($ thousands)	%
Total debt	**200,159**	**54**	174,643	51
Shareholder's equity	**171,942**	**46**	169,994	49
Total	**372,101**	**100**	344,637	100

The change in the Company's capital structure was mainly driven by a debt issue of $40.0 milion in 2009. The Company also repaid $14.0 million in current portion of long-term debt in June 2009. As a result, the percentage of debt in the Company's capital structure increased from 51% at December 31, 2008 to 54% at December 31, 2009.

12. Capital Stock

Authorised:

a) 60,000,000 (December 31, 2008: 60,000,000) Class A Ordinary Shares of CI$0.05 each

b) 250,000 (December 31, 2008: 250,000) 9% Cumulative, Participating Class B Preference Shares of 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, 2009 Number of shares	Year ended Dec. 31, 2009 Amount ($ thousands)	Transitional Period ended Dec. 31, 2008 Number of shares	Transitional Period ended Dec. 31, 2008 Amount ($ thousands)
Balance, beginning of period	28,087,313	1,672	25,414,003	1,513
Customer Share Purchase and Dividend Reinvestment Plan	171,976	10	112,317	7
Employee Share Purchase Plan, Employee Long Service Bonus Plans and Employee Stock Options	17,850	1	16,475	1
Rights offering	-	-	2,544,518	151
Class A Ordinary Shares issued and outstanding	28,277,139	1,683	28,087,313	1,672
9% Cumulative, Participating Class B	250,000	250	250,000	250
Total		1,933		1,922

Total shares issued and purchased in 2009 were 190,514.

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

(Expressed in thousands of United States dollars)

13. Share Options

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

The exercise price per share in respect of options is equal to the fair market value of the Class A Ordinary Shares on the date of grant. Each option is for a term not exceeding ten years, and will become exercisable on a cumulative basis at the end of each year following the date of grant. The maximum number of Class A Ordinary Shares under option shall be fixed and approved by the shareholders of the Company from time to time and is currently set at 1,215,703. 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, 2009 Number of options	Dec. 31, 2009 Weighted average exercise price per share	Dec. 31, 2008 Number of options	Dec. 31, 2008 Weighted average exercise price per share
Outstanding at beginning of period	770,603	12.19	779,603	12.19
Granted	161,300	8.76	-	-
Exercised	-	-	-	-
Forfeited	(27,000)	(12.34)	(9,000)	(13.09)
Outstanding at end of period	904,903	11.59	770,603	12.19

The position with respect to outstanding unexercised options as at December 31, 2009 was as follows:

Share Options

Date of grant	Number of Class A Ordinary Shares under option	Exercise price ($)	Term of option
July 18, 2001	420,803	11.46	10 years
September 22, 2003	181,100	13.78	10 years
April 11, 2008	149,700	12.22	10 years
February 27, 2009	153,300	8.76	10 years
Outstanding at end of period and Weighted Average	904,903	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, 2009 (eight months ended December 31, 2008: $0.03 million), resulting in a corresponding increase of the contributed surplus.

(Expressed in thousands of United States dollars)

14. Earnings per Share

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

As at December 31, 2009 the outstanding options are not dilutive as the market price of common shares is below exercise price.

Earnings per Share

	Earnings Dec. 31, 2009 *($ thousands)*	Weighted average shares Dec. 31, 2009 *($ thousands)*	Earnings per common shares Dec. 31, 2009
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

	Earnings eight months ended Dec. 31, 2008 *($ thousands)*	Weighted average shares eight months ended Dec. 31, 2008 *($ thousands)*	Earnings per common shares eight months ended Dec. 31, 2008 *($ thousands)*
Net earnings applicable to common shares	11,894	-	-
Weighted average shares outstanding	-	26,722	-
Basic earnings per common share	-	-	0.45
Effect of potential dilutive securities:			
Stock options	-	-	-
Diluted earnings per common share	11,894	26,722	0.45

(Expressed in thousands of United States dollars)

15. 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

	Dec. 31, 2009 Carrying value	Dec. 31, 2009 Estimated fair value	Dec. 31, 2008 Carrying value	Dec. 31, 2008 Estimated fair value
Held for trading:				
Cash and cash equivalents	4,927	4,927	1,431	1,431
	4,927	4,927	1,431	1,431
Loans and receivables:				
Accounts receivable	11,571	11,571	16,879	16,879
Other assets [1]	36	36	41	41
	11,607	11,607	16,920	16,920
Other financial liabilities:				
Short-term debt	8,000	8,000	8,000	8,000
Bank overdraft	-	-	4,158	4,158
Accounts payable and accrued expenses	22,510	22,510	21,048	21,048
Consumer deposits and advances for construction	3,963	3,963	3,785	3,785
Long-term debt including current portion [2]	192,159	172,856	167,766	158,679

[1] *Other receivables due from customers*

[2] *Carrying value of long-term debt includes deferred debt issue costs*

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, 2009 totalled $172.9 million, (December 31, 2008: $158.7 million). The fair value of the Company's remaining financial instruments approximates their carrying value, reflecting either their nature or short-term maturity.

Credit Risk

There is risk that CUC may not be able to collect all of its accounts receivable 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, 2009	As at December 31, 2008
Current	**9,151**	12,327
Past due 31 to 60 days	**822**	2,704
Past due 61 to 90 days	**622**	876
Past due over 90 days	**1,171**	1,188
Total accounts receivable	**11,766**	17,095
Less: Allowance for doubtful accounts	**(195)**	(216)
Less: Consumer deposits and advances for construction	**(3,963)**	(3,785)
Net exposure	**7,608**	13,094

As at December 31, 2009, the growth exposure on the balance sheet is $7.6 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	2009	2010 - 2011	2012 - 2013	2014 onward
Accounts payable and accrued expenses	22.5	22.5	-	-	-
Consumer's deposits and advances for construction	4.0	4.0	-	-	-
Short-term debt	8.0	8.0	-	-	-
Letter of credit	0.6	0.6	-	-	-
Long-term debt interest	81.5	11.7	20.8	16.5	32.5
Total debt	193.5	14.0	31.0	36.5	112.0
Total	310.1	60.8	51.8	53.0	144.5

Interest Rate Risk

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

(Expressed in thousands of United States dollars)

16. Capital Commitments

In April 2008, the Company entered into a project agreement with MAN Diesel SE ("MAN") for the purchase and turnkey installation of one 16 megaWatt ("MW") V48/60 medium-speed diesel generating unit and auxiliary equipment. This project will cost approximately $24.3 million to complete. $24.1 million has been paid to date towards the construction of the new MAN 16 MW unit, which is included in PP&E. The remaining amount to be paid as at December 31, 2009 is $0.2 million.

17. Insurance Coverage

The Company renewed its insurance policy on July 1, 2009 under the same terms and coverage as in prior years. Insurance terms and coverage include $100 million in property and machinery breakdown insurance; $70 million in 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 on North Sound Road and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of $100 million. Each "loss occurrence" is subject to a deductible of $0.5 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of $1.0 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 $190 million. This value excludes substations which are covered in the main property policies.

18. Foreign Exchange

The closing rate of exchange on December 31, 2009 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn$1.051 per US$1.00. The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by the Cayman Islands Monetary Authority is fixed at CI$1.00 per US$1.20. Thus, the rate of exchange as of December 31, 2009 for conversion of Cayman Islands dollars into Canadian dollars was Cdn$1.261 per CI$1.00.

19. Finance Charges

The composition of finance charges were as follows:

Finance Charges

($ thousands)

	Year ended December 31, 2009	Eight months ended December 31, 2008
Interest costs - long-term debt	**11,307**	7,571
Other interest costs	**432**	177
AFUDC *	**(4,668)**	(2,595)
Total	**7,071**	5,153

* *Refer to PP&E (Note 7) 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, 2009 amounted to $0.81 million (December 31, 2008: $0.25 million). The Pension Plan is administered by an independent Trustee.

During 2003, the Company established a defined benefit pension plan for the Chairman of the Company's Board of Directors. 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 as at December 31, 2009. An accrued benefit liability of $0.1 million as at December 31, 2009 (December 31, 2008: $0.05 million) is included within Accounts Payable and Accrued Expenses in the Balance Sheets.

(Expressed in thousands of United States dollars)

Pension Plan

	2009	Transitional Period 2008
Accrued Benefit Obligation		
Accrued Benefit Obligation		
Balance beginning of year	**5,060**	5,406
Interest cost	**301**	191
Actuarial gains	**(50)**	(472)
Benefit payments	**(79)**	(65)
Balance end of year	**5,232**	5,060
Plan Assets		
Fair value, beginning of year	**2,903**	3060
Actual return on plan assets	**(135)**	(373)
Employer contributions to plan	**479**	281
Benefit payments	**(79)**	(65)
	3,168	2,903
Funded Status - deficit	**(2,065)**	(2,157)
Unamortized past service costs	**1,076**	1325
Unamortized net actuarial loss	**905**	778
Accrued Benefit Liability	**84**	54
The Company's defined benefit pension plan asset allocation was as follows		
Equities	**42%**	54%
Money market funds	**46%**	42%
Fixed income	**10%**	1%
Cash	**2%**	3%
	100%	100%
During the year ended December 31 2009, $0.5 million (2008 Transitional Period: $0.2 million) was recorded as compensation expense, which comprises the following		
Interest cost	**301**	191
Expected return on plan assets	**(92)**	(109)
Amortization of past service costs	**248**	166
Amortization of actuarial losses	**51**	-
	508	248
Significant assumptions used:		
Discount rate during year (%)	**6.00**	6.50
Discount rate at year end (%)	**6.00**	6.00
Rate of compensation increase (%)	**3.00**	3.00
Expected long term rate of return on plan assets (%)	**3.00**	3.00
Average remaining service period (years)	**4.00**	5.00

(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 $0.60 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 $0.09 million were outstanding at December 31, 2009 ($0.1 million at December 31, 2008). Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totalled $0.02 million were outstanding at December 31, 2009 ($0.5 million at December 31, 2008).

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 North Sound Power Plant compound to the Esso terminal. CUC has also assumed responsibility for the management of the fuel pipeline (fuel suppliers will continue to pay the regular throughput fee) and ownership of bulk fuel inventory at the North Sound Power Plant. The Company is committed to purchase 80% of the Company's fuel requirements for the running of the Power Plant from Esso, the contract is for three years terminating in April 2010. 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. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IG: 2010 - 25.3.

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, 2009 was $2.4 million (December 31, 2008: $1.9 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Power Plant.

24. Subsequent Events

On February 8, 2010, the Company's Board of Directors declared a regular quarterly dividend of $0.165 per Class A Ordinary Share. The dividend will be payable March 15, 2010 to shareholders of record February 22, 2010.

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)

	2009	**TP 2008**
Operating revenues	**158,809**	150,348
Other revenues and adjustments	**3,109**	2,526
Total revenues	**161,918**	152,874
Operating expenses	**134,834**	135,122
Income before interest	**27,084**	17,752
Finance charges	**7,071**	5,153
Earnings for the year	**20,013**	12,599
Capitalisation:		
Class A Ordinary Shares (nominal value)	**1,683**	1,672
9% Cumulative Participating Class B Preference Shares (nominal value)	**250**	250
Share Premium	**73,729**	72,092
8% Cumulative Fixed Term Class C, Series 2 Preference Shares ($100 each)	**-**	-
8.5% Cumulative Redeemable Class C, Series 1 Preference Shares ($100 each)	**-**	-
Long-term loans	**200,159**	174,643
Total capitalisation	**275,821**	240,657
Capital expenditures	**42,665**	27,986
Earnings per Class A Ordinary Share ($/Share)	**0.67**	0.45
Dividends per Class A Ordinary Share ($/Share)	**0.660**	0.495
Book value per Class A Ordinary Share ($/Share)	**5.90**	5.87
Statistical Record:		
Net kWh generation (millions of kWh)	**597.40**	400.74
Net kWh sales (millions of kWh)	**558.10**	376.60
Peak load (MW) gross	**97.50**	93.77
Plant capacity (MW)	**152.60**	136.60
Total customers (actual number)	**25,461**	24,518

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

2008	2007	2006	2005	2004	2003	2002	2001
175,981	158,859	135,677	92,871	106,643	96,921	90,124	90,089
3,016	2,851	8,721	10,041	2,276	2,560	2,420	2,133
178,997	161,711	144,398	102,912	108,919	99,481	92,544	92,222
144,673	133,812	112,328	90,190	81,223	72,970	67,621	69,179
34,324	27,898	32,070	12,722	27,696	26,511	24,923	23,043
10,564	9,444	9,212	8,498	7,709	6,321	5,648	3,747
23,760	18,454	22,858	4,224	19,987	20,190	19,275	19,306
1,513	1,508	1,505	1,490	1,480	1,463	1,440	1,428
250	250	250	250	250	250	250	250
43,216	42,230	41,656	39,022	37,328	51,341	63,411	76,799
-	-	-	-	-	6,008	12,015	12,015
-	-	-	-	-	-	-	-
184,790	165,540	156,038	141,521	138,395	120,704	102,966	85,732
229,769	209,528	199,449	182,283	177,453	179,766	180,082	176,224
44,617	35,586	33,940	39,788	20,041	27,732	29,095	36,655
0.90	0.70	0.87	0.13	0.77	0.80	0.77	0.78
0.66	0.66	0.66	0.33	0.66	0.64	0.61	0.56
5.41	5.15	5.09	4.82	4.98	4.69	4.44	4.23
578.40	546.07	485.52	393.51	485.63	463.00	448.10	424.71
539.56	510.64	456.04	375.74	450.27	429.28	414.58	393.28
92.71	86.83	79.04	85.03	79.06	77.06	75.99	70.18
136.60	123.50	114.63	114.63	127.40	115.10	115.10	115.10
24,042	22,768	21,115	19,011	21,127	20,269	19,198	19,198

Board of Directors

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

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

Chairman
Island Corporate Holdings Ltd.
Bahamas

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

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

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

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

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

Attorney-at-Law
Ritch and Conolly
Grand Cayman

Karl W. Smith *
President and Chief Executive Officer
FortisAlberta Inc.
Alberta
Canada

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

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

Letitia T. Lawrence
Vice President Finance & Chief Financial Officer

Andrew E. Small
Vice President Transmission & Distribution

David C. Watler
Vice President Production

Shareholder and Corporate Information

Shareholders

Registered shareholders as of December 31, 2009 were as follows:

Class of Shares	*Shareholders*	*Shares Held*
Class A Ordinary Shares	1,874	28,277,139
9% Class B Preference Shares	115	250,000

1,629 Class A Ordinary registered shareholders holding approximately 11.22% of the outstanding shares are resident in the Cayman Islands, while the balance are resident overseas. Holders of Preference Shares are primarily resident in the Cayman Islands. 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, 2009.

Annual General Meeting

Shareholders are invited to attend the Annual General Meeting of the Company to be held Tuesday, May 11, 2010 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
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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