Lighting the Way: 1969



One of the original generating units installed by CUC. A 1,080 kiloWatt Ruston Hornsby arrives at the George Town dock and is being readied for its journey to the North Sound Road Power Plant. Discussing the transportation of the unit to its new home are (from left) the late Bernard Julier, Operations Manager; the late Pedro Echenique, Line Superintendent; the late Otis Jackson, Deputy Chief Engineer; and Selbert Jackson, Chief Engineer.







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Caribbean Utilities Company, Ltd. Report to Shareholders

For the Eight-Month Transitional Period ended December 31, 2008

Lighting the Way



General Data

Cover and Report Feature

For centuries, mankind has used earth's only natural satellite, the moon, in "lighting the way" to new discoveries. History records many explorers, discoverers, navigators and military leaders - visionaries - who dared to challenge the norm and who truly believed that there was always something different or better over the horizon. In much the same way, throughout CUC's history there have been many employees, such as our "Veterans of Power" - Stanton Ebanks, Selbert Jackson and the late Otis Jackson, Pedro Echenique and Warren Conolly. These gentlemen, because of their knowledge and expertise, were included in the Company's decision-making process over the years and were instrumental in preparing CUC for the future. Many events have helped to mold CUC into a company which today is viable, operates efficiently and provides a reliable service to its customers.

Our cover depicts the transition from darkness to light over the Caribbean Sea and the quarter moon reminds us that light is always present.

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 136.6 megaWatts (MW), and a new record peak load of 93.8 MW, which occurred in September 2008. The 199 employees are committed to providing a safe and reliable supply of electricity to over 24,500 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.

READERS SHOULD REVIEW THE NOTE FURTHER IN THIS TRANSITIONAL REPORT, IN THE MANAGEMENT'S DISCUSSION AND ANALYSIS SECTION, CONCERNING THE USE OF FORWARD-LOOKING STATEMENTS. WHICH APPLIES TO THE ENTIRETY OF THIS REPORT TO SHAREHOLDERS FOR THE EIGHT MONTHS ENDED DECEMBER 31, 2008.

Location



About the Cayman Islands

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 54,000, are comprised of three islands: Grand Cayman, Cayman Brac and Little Cayman. Located approximately 150 miles south of Cuba, 460 miles south of Miami and 167 miles northwest of Jamaica, the largest of the Cayman Islands is Grand Cayman with an area of 76 square miles. A Governor, presently His Excellency Mr. Stuart Jack, is appointed by her Majesty the Queen. The Cayman Islands is a democratic society. There is a Legislative Assembly comprised of representatives elected from each of Grand Cayman's five districts as well as two representatives from the Sister Islands of Cayman Brac and Little Cayman.

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Plans were put in place to upgrade the Company's distribution lines from 4,160 to 12,470 volts to cope with the very steep load increases then occurring. This upgrade was also planned to incorporate and extend service to East End and North Side, which was completed by the end of 1972 when electricity was made available in all towns and villages east of George Town.

Highlights

Financial Results in Brief

(expressed in \$ thousands, unless stated otherwise)

	Eight	Twelve	Change
	months ended	months ended	%
	Dec. 31, 2008	April 30, 2008	
	\$	\$	
Operating revenue	150,348	175,981	(15%)
Electricity sales	46,406	90,326	(49%)
Fuel factor	103,942	82,386	26%
Hurricane Ivan Cost Recovery Surcharge	-	3,269	(100%)
Total operating expenses	135,122	144,673	(7%)
Finance charges	5,153	10,564	(49%)
Earnings for the period	12,599	23,760	(47%)
Total assets	373,987	368,249	16%
Total shareholders' equity	169,994	142,472	19%
Cash from operations	23,271	31,285	(26%)
Earnings per Class A Ordinary Share (\$ per share)	0.45	0.90	(50%)
Dividends per Class A Ordinary Share (paid and declared) (\$ per share)	0.495	0.66	(25%)
Book value per Class A Ordinary Share (\$ per share)	6.05	5.41	12%
Class A Ordinary Shares (\$ per share)			
Market price: High	12.25	12.85	(5%)
Low	6.10	11.20	(45%)
Year-end	6.80	12.10	(44%)

Effective January 1, 2009, CUC is reporting on a calendar year basis. The current financial period is eight months in duration spanning from May 1, 2008 to December 31, 2008.

Performance

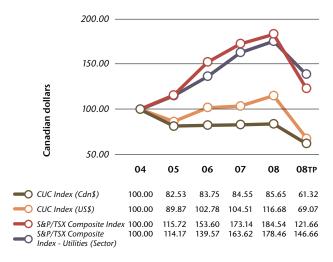
Net earnings for the eight-month Transitional Period ended December 31, 2008 (the "2008 Transitional Period") were \$12.6 million. Base rate reductions, the removal of the Hurricane Ivan Cost Recovery Surcharge and the difference in reporting periods, all contributed to a 47% decrease in net earnings as compared to fiscal 2008. Dividends paid and declared on Class A Ordinary Shares were \$0.495 per share. The Class A Ordinary Shares (CUP.U) traded on the Toronto Stock Exchange at a high of \$12.25 per share in the 2008 Transitional Period.

Rate of Exchange

The closing rate of exchange as of December 31, 2008 as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was Cdn\$1.2180 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, 2008 for the conversion of Cayman Islands dollars into Canadian dollars was Cdn\$1.4616 per CI\$1.00.

Share Performance

Comparison of five-year cumulative total returns between Cdn100.00 and US100.00 invested in CUC Class A Ordinary Shares and the S&P/TSX Composite Index - Utilities and S&P/TSX Composite Index.



Information reflected in this Highlights section should be read in conjunction with the disclosure contained in the Management's Discussion and Analysis and its associated cautions beginning on page 14. All dollar amounts in this Report to Shareholders for the eight-month Transitional Period ended December 31, 2008 are stated in United States dollars unless otherwise indicated.

To Our Shareholders

It is our pleasure to report the progress of Caribbean Utilities Company, Ltd. ("CUC" or the "Company") for the eight-month period ended December 31, 2008 (the "2008 Transitional Period"). Effective January 2009, CUC commenced financial reporting on a calendar year basis as opposed to the previous fiscal year of May to April. This change in reporting period will introduce significant benefits going forward with respect to peer company comparisons and regulatory reporting. However, we note it has introduced complexity in this Report due to comparisons with dissimilar prior reporting periods.

In its 42nd year of providing electricity for the people of Grand Cayman (the "Island"), CUC continued its long tradition as a stable and reliable company to its shareholders, customers and employees despite the challenges of rate reductions, new regulations and record high fuel prices.

In anticipation of an economic downturn and escalating fuel prices, the Company had projected reduced sales growth for the 2008 Transitional Period compared to prior periods. Electricity sales grew by 2% from 368.4 million kiloWatt-hours ("kWh") to 376.6 million kWh compared to the same eight-month period ended December 31, 2007. The number of customers

David Ritch, Chairman of the Board of Directors and Richard Hew, President and Chief Executive Officer

increased by 3.8% from 23,615 on December 31, 2007 to 24,518 on December 31, 2008. Cooler and wetter than average weather in October, November and December negatively impacted kWh sales during the 2008 Transitional Period.

Net earnings for the 2008 Transitional Period ended December 31, 2008 were \$12.6 million or \$0.450 per Class A Ordinary Share. This was largely in-line with the Company's expectations given the lower growth projections. Dividends paid on Class A Ordinary Shares were \$0.495 per share. The Company notes that dividends paid consists of the three distributions of \$0.165 per share that traditionally represented three full quarters of earnings, but due to the change in the reporting period dividends paid are compared to only eight months of earnings in this Report.

While the Cayman Islands' domestic banking and financial services industry has not been impaired by a liquidity crisis and thus far has been somewhat insulated from the ongoing global recession, it is expected that the offshore financial services sector will see a downturn with declining global commerce. The tourism industry will also experience the impact of the recession, particularly from consumers in the United States, who comprise the largest

group of visitors to the islands, whether as cruise ship passengers or as stayover visitors. A decline in tourist arrivals and global commerce may further erode revenues and make 2009 a challenging year for earnings.

Despite the decrease in revenue and earnings, the Company continues to operate in an efficient and effective manner. The Company continues to look for opportunities to invest and grow in the long-term with a continued focus on reducing controllable operational expenditures.

During the 2008 Transitional Period, CUC invested \$28.0 million in new infrastructure and upgrades to existing facilities to ensure that the electricity required to meet growing demand is generated and delivered reliably and efficiently. Notable ongoing projects include the 69 kiloVolt ("kV") eastern transmission line loop, which will be completed in November 2009, and the addition of a 16 megaWatt ("MW") diesel generator being installed by MAN Diesel SE ("MAN") and its contractor Burmeister & Wain Scandinavian Contractor A/S ("BWSC") of Denmark. This unit is scheduled to be operational in September

In May 2008, the Company formally notified the Electricity Regulatory Authority ("ERA") that additional capacity of 16 MW each in years 2011 and 2012

To Our Shareholders

was required to meet demand and the ERA commenced the process of soliciting competitive bids for this capacity. Due to the lower forecast growth in demand, these on-line dates have now been delayed by a year.

Ongoing capital programmes were funded in part by the successfully completed Class A Ordinary Share rights offering and related stand-by agreement (the "Offering") and cash from the Company's operations. Under the Offering, CUC raised gross proceeds of \$28.2 million through the issue of 2,544,518 Class A Ordinary Shares at a price of \$11.09 per share with Fortis Inc., our majority shareholder, playing an important role by providing a stand-by commitment. Access to capital is a key success factor for electric utility companies, and CUC is pleased to have completed its first major equity offering since 1999, which has strengthened the Company's balance sheet.

As a result of our ongoing investment in infrastructure, technology and training, CUC once again delivered reliable electricity service to its customers over the course of the reporting period with the Average Service Availability Index ("ASAI") at 99.95%, ahead of a target 99.93%. This level of reliability is the equivalent of less than 4.5 hours of outage per customer per year and is in the order of reliability levels enjoyed in North America. The results of CUC's customer satisfaction survey conducted in November 2008 also indicated that customers were appreciative of our reliability with 88% of the customers polled either being satisfied or highly satisfied with their overall service. We hasten to add that the ASAI reliability measure is an average indicator. We continue our efforts to improve our service reliability to this level for all customers in all areas, but particularly those in the eastern districts, where the much-needed transmission loop is expected to bring an improvement in service.

With the escalation in fuel costs to record highs during summer 2008, the call by consumers for the Company to offer alternative energy options was heightened. Under the terms of the Electricity Transmission and Distribution Licence (the "T&D Licence"), CUC has a basis on which to pursue alternative energy options such as wind and solar to complement the reliability of our generators while displacing diesel fuel costs. Although current renewable technologies remain relatively expensive compared to conventional diesel generation, we believe it is timely to begin adding renewable sources to our system to gain experience with the various technologies and to provide a hedge against diesel price increases in the future.

With the approval of the ERA, CUC is now able to offer customers in Grand Cayman the opportunity to connect renewable energy systems to CUC's distribution system and reduce their energy bills by generating their own power from renewable energy while benefiting from the reliability of CUC's service. This programme is designed to be revenueneutral to CUC with credit given to the generating customers at avoided variable cost rates.

During the 2008 Transitional Period, CUC also issued a request for expressions of interest for up to 10 MW of wind power projects in Grand Cayman and received a positive response from a number of credible developers. The initiative has since progressed towards a request for proposal stage

from a shortlist of qualified parties.

Despite the recent high fuel prices, as previously mentioned, the diesel engine remains the most reliable and cost-effective means of generating electricity in relatively small, remote systems such as CUC's. However, the Company will continue to monitor and explore alternative energy sources as they emerge and is prepared to adopt technologies as they prove viable.

It is with great sadness that we note the passing of Mr. W. Warren Conolly, OBE, JP, Director Emeritus of CUC in October 2008. A founding member of CUC, Mr. Conolly served on the Board of Directors from 1966 to 2000. It was Mr. Conolly's vision for the Cayman Islands that helped to pave the way for the growth of reliable electrical service in Grand Cayman. CUC is building on that vision today, and we will be ever grateful to the late Mr. Conolly for his wise counsel, guidance and support over many years.

CUC continues to rely on the good guidance and support from its present Board of Directors, whom we thank for their ongoing contributions. We also wish to express our sincere gratitude to CUC's loyal and dedicated employees for another year of success. Once again, a number of our employees provided hurricane restoration assistance to other utilities with assistance given in the Turks and Caicos Islands and a more significant effort in the Sister Islands of Cayman Brac and Little Cayman, which were severely impacted by Hurricane Paloma. Manpower and equipment from the Company enabled local electricity provider's to get power to a number of businesses and homes in a reasonable timeframe. We are proud of our employees and their ongoing commitment to the Company.

Throughout this Report, there are images portraying CUC's long and mutually beneficial relationship with the community and the continuing growth of the Island. In addition, we have included short, historical excerpts in keeping with our theme of "Lighting the Way". We hope they enrich your understanding of the history of electricity on the Island and the key decisions made during the early years in their broadest context.

As we close on what has been a transition period in more than one respect, we look ahead with confidence that we are well-prepared to operate in the new regulatory and economic environment. We thank you for your continued support and reassure you that the Company has a team of highly capable employees dedicated to our mission: "To be a leader in the growth of our community by delivering safe and reliable energy services at competitive costs and with respect to the environment while being a model corporate citizen and providing a fair return to our shareholders."

David E. Ritch. OBE. IP Chairman of the Board of Directors

February 27, 2009

I.F. Richard Hew President & Chief Executive



Operational Highlights

The 2008 Transitional Period ended December 31, 2008 presented new opportunities for the development of renewable energy on Grand Cayman as well as continued efforts to integrate new standards and reporting required under the T&D Licence and Electricity Generation Licence (collectively the "Licences"). During this period, we also experienced slowing demand and consumers faced volatility in electricity prices as escalating worldwide hydrocarbon pricing drove electricity generation costs to record highs before declining to much lower levels at the end of the period. The rapid escalation underscored the Island's dependence on the only currently viable means of reliable generation: diesel engines.

Historically, CUC focused its attention on meeting growth in demand with reliable electricity service. As the Island's economy has matured, growth has slowed somewhat and, although reliability remains our principal focus, efficiency opportunities inherent within our existing economies of scale have become more important.

Demand Growth

As of December 31, 2008, CUC had a total customer base of 24,518 (with 20,847 residential customers and 3,671 commercial customers). This reflected an overall growth rate of 2% over the eight-month period compared to April 30, 2008 with a total of 24,041 customers (20,418 residential and 3,623 commercial). Customer growth for the 12-month period ended April 30, 2008 had been 5.6%.

During the 2008 Transitional Period, total kWh sales were 376.6 gigaWatt-hours ("GWh"), compared to 539.6 GWh for the 12-month period ended April 30, 2008. Demand peaked at 93.8 MW in September 2008 compared to a peak of 92.7 MW in August 2007, a percentage increase of 1.2%.

Under the Licences, CUC will bring a further 16 MW of capacity on line in September 2009 to meet demand that was forecast in late 2007.

The Company's peak demand forecast drives the size and timing of new generation capacity which, under the T&D Licence, is initiated upon the submission by CUC of a Certificate of Need to the ERA identifying need for three years in advance to allow for a competitive bid process. Although additional capacity of 16 MW had been scheduled to be online in each of 2011 and 2012, with slowing growth on the Island as indicated by the annual



Expansion of the Company's Engine Room 5 began in late 2008 and when completed, will house a fifth MAN Diesel SE V48/60 generating unit. Commissioning of this unit is scheduled for September 2009.

Report to Shareholders

Operational Highlights

1.2% increase in peak demand, CUC has advised the ERA that the capacity is not required until a year later.

The Company is obligated under the T&D Licence to maintain generating capacity between 135% and 155% of forecast peak generation. If capacity falls below that amount, the system is at risk of not being able to deliver reliable service in the event of a major generating unit failure, whereas, exceeding that capacity effectively introduces additional costs and ultimately creates unnecessary upward rate pressure on consumers. Uncertainty about demand growth arising from the current economic climate presents challenges to forecasting demand and capacity requirements and introduces risk that excess capacity costs could be introduced during an economic period when customers can least afford them.

System Reliability and Customer Service

During the eight-month period ended December 31, 2008, reliability remained high as measured by the Average Service Availability Index, at 99.945% compared to 99.954% during the 12-month period ended April 30, 2008. In November 2008, a customer satisfaction survey returned an 88% overall satisfaction rating, reflecting the positive results of the Company's customer service efforts.

The Company is continuing to move forward with its Automated Metering Infrastructure ("AMI") initiative scheduled for rollout in early 2010. The AMI project will replace existing meters with "smart" meters capable of providing more detailed consumption and reliability information to both the customer and the Company, leading to more effective maintenance response and increased customer understanding of the results of conservation efforts.

CUC conducts the monthly meter readings using a remote device from Itron Systems, which collects data up to a half-mile from CUC's vehicles. Data is transferred from the meters to the device. The data is then uploaded from the device to the Company's billing system. Having this system in place, CUC is able to read customers' meters within five days versus 30 days for manual readings. The remote device eliminates manual input, resulting in less human errors.

The Company continues to focus on infrastructure initiatives such as the completion of the Rum Point to the Frank Sound Substation transmission loop, which will bring increased reliability to the eastern districts of the Island where outages are more frequent.

The Energy Smart Programme continues to promote energy conservation and CUC has conducted free Energy Smart audits for its customers since 2003. CUC

also participated in the Chamber of Commerce Business Expo, a three-day event that showcased local businesses and attracted more than 3,000 visitors who were able to interact with CUC employees and learn more about alternative energy options, energy conservation, electrical safety and the Company in general. A minisurvey, which was conducted during the Expo indicated that customers are open to the idea of renewable generation.

Capital Projects

The 2009 generation expansion, which involves the expansion of Engine Room 5 to facilitate the addition of one MAN V48/60 16 MW generating unit, is ongoing and is scheduled to be turned over to the Company in September 2009. The \$24.3 million contract for this project was signed in April 2008 and represents the fourth phase expansion in the 10-year Strategic Alliance Agreement signed with MAN in 1998.

The Company has designed and built a mobile substation allowing major substation service to be undertaken with minimal service interruption. This innovation helps mitigate service risks associated with long lead times for power transformer delivery.

Capital projects during the eight-month period were financed using the proceeds of a Class A Ordinary Share rights offering and cash from operations. CUC's controlling shareholder, Fortis Energy (Bermuda) Ltd., made a stand by commitment that ensured the success of the offering. As a publicly traded company, CUC is able to access efficient sources of equity and debt financing, thereby lowering overall capital costs and ultimately keeping consumer rate increases to a minimum.

Capital projects also benefit from strategic alliances such as that the Company maintains with MAN, providing preferred customer pricing, standardisation of parts, secure access to worldwide parts and service support network and customisation in equipment design and troubleshooting. CUC presently has over 52 MW of installed MAN capacity.

Capabilities and Alliances

CUC was called upon to assist service providers in Grand Turk and the rest of the Turks and Caicos Islands, Cayman Brac and Little Cayman when Hurricanes Ike, Gustav and Paloma respectively, caused significant hurricane damage on those islands. These services are mutually available to CUC through the Caribbean Electric Utility Service Corporation (CARILEC), the regional association of electric utilities, and Fortis Inc. affiliates in the event of severe damage on Grand



Operational Highlights

Cayman. CUC continues to build expertise to meet technical demands unique to tropical climates and weather threats. Construction and servicing of transmission and distribution ("T&D") assets to withstand the forces of severe weather continue to evolve, and the Company considers itself a leading innovator in this field. These assets are largely uninsurable in hurricane-susceptible climate, and accordingly, the T&D Licence permits a special rate factor under specified circumstances to allow recovery of uninsured losses.

Challenges - Energy Costs and Viable Alternatives

CUC has delivered reliable electrical service since 1966 in response to rapidly growing demand in support of a burgeoning economy. With the maturing of the Cayman Islands economy, economic efficiencies are called for and volatility in the cost of inputs has a significant negative impact on the Island's competitive advantage. The evidence of this was clear during summer 2008, when CUC's cost of diesel fuel increased from \$4.81 (CI\$4.04) per imperial gallon ("IG") in May, peaking in July at \$5.52 (CI\$4.63) per IG.

The fuel component or "fuel cost charge" in customers bills peaked at an unprecedented \$0.32 (Cl\$0.27) per kWh in September before returning to \$0.20 (Cl\$0.17) in December. The Company negotiates long-term fuel prices with the two suppliers resident on the Island and passes fuel costs on to consumers without markup. The rapid increase in fuel costs resulted in increased focus by consumers on conservation supported by the Company's Energy Smart Programme, which assists customers in identifying and prioritizing opportunities to reduce consumption.

Under the T&D Licence, the Company has been empowered to pursue long-term viable renewable generation. Renewables fall into two distinct categories: firm sources, which can generate continuous rated output, and non-firm sources. Firm sources include Ocean Thermal Energy Conversion (OTEC), while non-firm sources include wind and photovoltaic, which are dependent on prevailing winds and sunlight respectively.



Work continues on the 69 kV loop linking the eastern end of Grand Cayman, which will improve reliability to customers in the districts of North Side and East End. To date, over 200 concrete poles have been installed. Completion of the 69 kV line is anticipated for late 2009 and energising the line is scheduled for early 2010.

In 1976, our bulk fuel storage capacity totalled 100,000 IG. As our consumption rate at that time approximated 50,000 IG per week, it was imperative that the request for a 524,600 IG storage tank be approved, as any disruption of normal deliveries, caused by storms, shipping accidents, or other factors, could have forced CUC out of business within two weeks or less. Construction of the new 524,600 IG fuel tank was completed by November 1977

Operational Highlights

Other potential firm renewables such as hydroelectric, tidal and geothermal are either not available or not feasible on the Island.

Many non-firm sources of generation technologies are well developed, and economic viability thresholds based on world oil prices are fairly well understood. In 2003, CUC undertook a comprehensive wind study on the Island to determine if wind generation was economically viable. Although the report concluded that it was not economically viable at the time, CUC benefited from the knowledge gained and the data collected. In July 2008, following the signing of new licences, CUC initiated a request for expressions of interest from wind developers for wind projects of up to 10 MW. A request for proposal process is underway and the receipt of firm proposals



A mobile substation was assembled, constructed, installed, tested and commissioned in 2008 by members of the Company's Electrical Maintenance and Engineering Departments. The mobile substation was installed at the South Sound Substation to substitute for one of the transformers, which was shipped to the United States for repairs.

will provide further insight into the viability of wind energy. Of the identified non-firm generation sources, CUC believes that wind shows the most immediate promise on a large commercial scale basis for Grand Cayman.

Solar or photovoltaic generation on a commercial scale, is understood to be less viable than wind at this time. None the less, the availability of small scale photovoltaic systems for consumer installation has presented an opportunity to offset diesel generation using excess generation from parties who are pioneering this technology principally for environmental reasons. Under the Transmission and Distribution Licence, with the approval of the ERA, CUC has been able to introduce a Consumer-Owned Renewable Energy ("CORE") programme allowing consumer scale renewable energy generators to connect to the grid with the benefit of reliable back up service around the clock. CORE generators will also receive credits for excess energy they feed into the grid at times when their consumption is below their generation.

In the absence of direct taxation, Grand Cayman has few opportunities to subsidise the development of renewable energy. However, the Government has been proactive in its removal of import duty fees on residential scale renewable generation equipment and its case-by-case consideration of duty rebate on commercial scale installations. We will continue to seek opportunities to facilitate consumers and others who wish to explore renewable energy generation.

CUC will continue to focus its efforts on the historical partnership it has with the people of Grand Cayman and their vision for growth. While at this time, fuel price volatility presents challenges in stabilizing the cost of electricity and renewing the competitive advantage the Island once had with reliable energy supply, CUC is committed to understanding and exploiting new technological opportunities at the time of their emergence where it is feasible for the benefit of all residents of the Island.



Committed to our Employees

CUC is proud of its active participation in the Investors in People ("IIP") programme. IIP is an international certification standard that provides a framework helping organisations improve performance and realise objectives through the effective management and development of their people. CUC's initiatives under the programme are aimed at linking employee development activities to the business strategy and the planning, execution and review processes to provide the best opportunity for individual and corporate success. CUC implemented IIP in 2006 and today views this standard as more important than ever in the management of its most important asset - its people. CUC is currently working towards re-certification in this standard by March 31, 2009.

The Company had 199 employees as of December 31, 2008, 178 of which are Caymanian. CUC strives to employ Caymanians first and employs expatriates

where required talent and skill sets are not available locally maintaining a principal objective of knowledge transfer.

CUC is proud to have awarded scholarships in June 2008 to young Caymanians Joshua Ebanks, who is pursuing a Bachelor's degree in Mechanical Engineering; Corey Miller, who is pursuing a Bachelor's degree in Electrical Engineering Technology; and Naomi Johnatty, who is pursuing a Master's degree in Renewable Energy Development. In December 2008, CUC welcomed back Dillon Evans, who completed his Associate's degree in Mechanical Technology and Facilities Management. CUC's System Operations Department now has seven first-class engineers, 13 second-class and three third-class engineer licence holders. Additionally, there are three supervisors pursuing their Chief Engineer's licence.

CUC has implemented a four-year lineman



CUC's workforce, which is 90% Caymanian, boasts a respectable injury frequency rate of 3.94 incidents per 200,000 man-hours and a severity rate of 7.9 lost days per 200,000 man-hours worked. Respectable numbers considering CUC's working environment is characterised by many potential hazards such as powerful machinery and "above ground" electrically charged systems.

It seemed a matter of urgency to reconductor the feeder as load along West Bay Road was growing the most rapidly on the island. Looking ahead to supplying Holiday Inn and other big hotels that probably would be built in the future, the Company decided not only to rebuild the one existing West Bay Feeder, but at the same time to build a new one which we called the "Seven Mile Beach" Feeder. Just how prescient this decision had been became very obvious from 1978 onwards after the connection of Holiday Inn and more than doubling of the load in the area by 1982.

Committed to our Employees

apprenticeship programme, and 26 of our current journeyman linemen have obtained certification from Northwest Lineman College in the United States. The programme consists of four levels and is accredited by the United States Labour Department. Linemen are required to pass a written and performance verification examination set externally by the College and upon completing all the necessary requirements they obtain certification as a journeyman lineman.

CUC continues to focus on the ongoing apprenticeship training of employees who work in areas such as operations, mechanical and electrical, as part of its initiative to enhance employee specialised skills to meet future energy demand.



CUC's employees are trained to the highest degree in each of their respective areas of expertise. Our vehicles and equipment undergo rigorous testing before and during time of use to ensure that employees' safety is not compromised by faulty or damaged equipment.

The Company has also implemented a management development programme accredited by the Institute of Leadership and Management, one of the main organisations for supervisory training in the United Kingdom, for all supervisory

The Company organised in-house performance appraisal workshops for all managers and first-line supervisors. The workshops were conducted by an external facilitator during October and November 2008. Over 30 employees participated in this comprehensive programme, which addressed topics such as conducting appraisals and providing adequate feedback.

As part of ongoing leadership training for its management team, CUC exposed its leadership to a 360° benchmark survey in November and December 2008. The team was introduced to new approaches to management and leadership.

At the end of October 2008, the Company thanked retiring T&D Planner Egerton Millwood and Electrical Helper Hinsley Hurlston for their many years of dedicated service.



Community Involvement

In the words of Mahatma Gandhi, "Be the difference you want to see in the world". This is a commitment that our altruistic employees strive to achieve. CUC's community outreach projects are mutually beneficial undertakings that enhance our employees' sense of involvement in the community while positively impacting the lives of all those involved in such projects.

A total of 1,377 hours, 75% of which was personal time, was contributed by employees during the 2008 Transitional Period, surpassing our prorated 2008 Transitional Period target of 1,133 hours. Eager employees sacrificed their evenings and weekends to serve as mentors in the Cadet Corps and the Big Brothers Big Sisters Programme. A new project was added to the Company's Community Involvement programme during the period. Employees have been offering their time and skills to the Royal Cayman Islands Police Service as Special Constables. In its fourth year, the CUC Primary Football League drew its usual group of employee "footballers" who served as officials and coaches.

In September, we treated our differently-abled friends at the Sunrise Adult Training Centre to a movie outing at Hollywood Theaters in Camana Bay. We had a hearty Thanksgiving meal with our friends at the Sunrise Centre again in November. CUC partnered with the National Council of Voluntary Organisations to help raise funds for their annual telethon in November, the largest fundraising initiative for the Council. CUC volunteers including three children, collected over CI\$1,200 and presented it during the telethon, which was broadcast live on the local television station.

Annual holiday projects such as the Christmas Stocking Decorating Party at the Lighthouse School, the Big Brothers Big Sisters Christmas Party and the Kiwanis Santa's Landing, drew cheerful CUC volunteers who were anxious to share in the holiday joy with the youngsters of Cayman. At the Lighthouse School, stockings were transformed from plain red and white fabric to creative, glittery masterpieces and then stuffed with stocking stuffers. The "Littles" participating in the school-based Big Brothers Big Sisters Programme at George Town Primary School enjoyed a festive Christmas Party, including a catered lunch and a gift exchange.



Our employees are heavily involved with the Big Brothers Big Sisters programme and spend many hours with their respective "Littles". The Company's Community Involvement Team organises various luncheons throughout the year ending with a special Christmas Luncheon in December, where employees share stories, enjoy a special meal and present gifts to the youngsters.

The area where the most spectacular load growth took place was, of course, Seven Mile Beach. In 1983, it became evident that our facilities serving that area would need to be substantially strengthened. This we did by constructing two new feeders: "Seven Mile North" and "West Bay", the latter replacing the original one of that name northwards from Cayman Resorts; the southern part of the original West Bay feeder became the "West Bay Road" feeder.

Community Involvement

Santa's Landing, organised by the Kiwanis Club annually, was supported by CUC both financially and in terms of volunteerism. Several employees were on hand to ensure the successful execution of this event.

CUC volunteers on wheels as well as by foot. A group of committed employees continued to assist with the Meals on Wheels programme by delivering hot meals to selected senior citizens, disabled or less fortunate members of the community. Working in conjunction with the Rotary Club of the Cayman Islands, Rehoboth Ministries and the Cayman Islands Government, these employees ensured that everyone on their delivery route was served a nutritious lunch.

The Company also made a "splash" in the community by sponsoring the Flower's Annual One-Mile Sea Swim, which attracted swimmers young and old into the waters off Seven Mile Beach. In addition to CUC's financial assistance, two employees took to the seas and others trod the sands in support of this annual fundraiser. CUC also hosted its annual 800m Sea Swim, which also attracted a large number of swimmers. Employees with a knack for scuba diving chose to "get their hands wet" in other sea-based community

initiatives such as the underwater cleanup, which is a part of the annual Earth Day Cleanup.

During 2008, CUC sponsored the Cayman Islands CARIFTA Team, marking 22 years of CUC's commitment to athletics and confirming our long-standing pledge to nurture Cayman's future Olympians and aspiring track athletes. The prestigious CARIFTA Games were hosted by St. Kitts and Nevis and saw a strong showing of Caymanian talent in various track and field events.

Our employees are committed to remaining active in the community in an effort to serve as positive role models and to pave the way for the next generation. We have and will continue to take a proactive approach to being the difference we want to see in Cayman's community.

We congratulate our top 10 volunteers for this period who together contributed 908 hours. They are Derek Long, Dave Thompson, Lauren Bush, Gary Whittaker, Kary Blythe, Ken Bell, Antwan Seymour, Sharon Bodden, Peter Williams and Richard Hew. A number of other dedicated employees also made a positive and lasting difference in our community.



The popular CUC-sponsored Primary Football League caters to over 400 young players under the age of 11 and includes participation from 15 private and public schools on the island. Employees such as Gary Whittaker (with sunglasses) assist with officiating games on Saturday mornings as well as coaching, preparing fields and League administration.



Safety and Environment

In May 2004, CUC achieved ISO 14001 certification in its Environmental Management System ("EMS") and has since maintained its certification through yearly audits. In addition to the exploration of new and more efficient technology, CUC continues to carry out normal operations with attention to our Significant Environmental Aspects. Our operational procedures outline methods for the management and impact minimisation in these areas where conventional diesel plants may impact the environment. Exhaust gas emissions, oily waste management, diesel and gasoline management, hazardous materials and chemicals management, utilisation of contractors, management of oily rags and hydrocarbon solids and process water disposal are central to our daily efforts in environmental protection.



The Company installed several high efficiency fluorescent streetlights in certain areas around the island to test their energy efficiency and reliability.

CUC has developed two business case studies to identify more efficient lighting options for street lighting. High efficiency fluorescent and light emitting diode technology are both being tested for energy efficiency and any issues surrounding maintenance and operation. Energy savings associated with use of these lights can be in the range of 55% to 75% with maintenance costs reduced as they are more reliable. These lights have been installed in test areas to determine their longevity and maintenance requirements under varying weather conditions. With a projected rate of savings of 50%, a reduction in energy consumption for streetlights of 4,500 kWh could be achieved. CUC has also taken steps towards evaluating the fuel usage and efficiency of its fleet vehicles. In order to reduce fuel consumption, the Company is



5.4 kiloWatt solar panels (photovoltaic) were installed on the roof of a North Sound Power Plant generation site building.

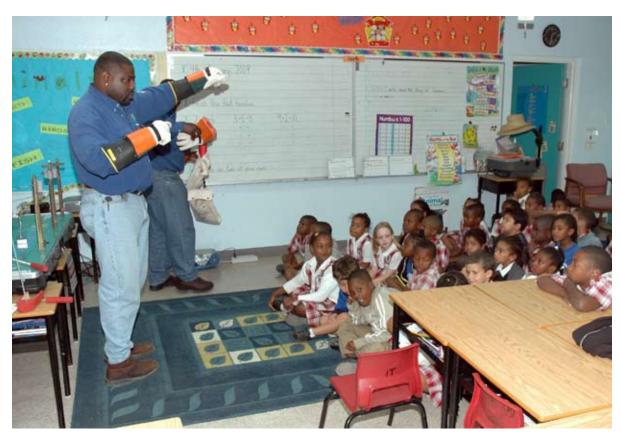
In 1983, we foresaw that the Eastern Feeder must be reinforced in some way - and soon. The option we chose was to build a "transmission" line, which by definition delivers power in bulk to one or more strategically placed substations. Construction started on the North Sound to Bodden Town 69 kV line in late March 1984. The line was completed in 1988, before Hurricane Gilbert, and we all felt gratified that the line withstood that storm's ravages virtually unscathed. The credit for this belongs to the late Pedro Echenique, then our line chief, for the very solid construction of the line and especially for the substantial guy anchors he insisted on.

Safety and Environment

evaluating a hybrid vehicle with a rated fuel economy of up to 36 miles per gallon ("mpg") compared to its standard-model counterpart at 20 mpg.

CUC's working environment is characterised by many hazards for our operational workers. Powerful machinery and electrically charged systems, often at elevated working heights, pose unique personal risk. CUC applauds the responsibility taken by its workforce in the day-to-day execution of installation, maintenance and operations to sustain a respectable injury frequency rate of 3.94 incidents per 200,000 man-hours and a severity rate of 7.9 lost days per 200,000 man-hours worked. CUC's long-term objective is to reduce the average to zero.

Employee and public safety remain a priority for the Company, and a number of initiatives were undertaken throughout the year. Employees from the Training, Safety and Environment and Line Operations Departments have begun an electricity safety education programme for schools in Grand Cayman. This programme includes the use of a model city to demonstrate the hazards associated with transmission and distribution systems as well as residential electricity use. CUC continues to promote a "safety first" culture through various training programmes, including providing a thorough safety orientation to all new employees, requiring all contractors to complete a safety orientation training course prior to starting work and providing supervisors and managers with certified safety and accident investigation training.



Lineman Foreman Michael Whittaker and Lineman Patrick Myrie (partially hidden) conduct a safety demonstration for Grade 2 youngsters at Red Bay Primary School using the Company's model city - "Electric Junction". Throughout the year, members of Line Operations conduct safety demonstrations at schools and events around the island in an effort to better educate our youngsters on the dangers of electricity and how they can conserve energy at home and school.





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 financial period ended December 31, 2008. Effective January 1, 2009, the Company changed its fiscal year end date from April 30 to December 31. To allow for more meaningful comparison, unaudited results of operations have been provided for the nine months ended January 31, 2008 in addition to the audited results for the twelve months ended April 30, 2008. As used in this MD&A, "2008 Transitional Period" or "Transitional Period ended December 31, 2008" means the eight months ended December 31, 2008 and "fiscal 2008" or "year ended April 30, 2008" means the twelve months ended April 30, 2008. Readers should note that the 2008 Transitional Period is an eight-month period and, accordingly, readers should take into account any annualisation required to make proper comparisons to fiscal 2008 which is a twelve-month 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 ("GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, which are disclosed in the notes to the Company's 2008 Transitional Period financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation, these transactions would

Financial Highlights

(in \$ thousands except Earnings per Class A Ordinary Share, Dividends paid per Class A Ordinary Share and where otherwise indicated)

	Eight months ended Dec. 31, 2008	Nine months ended Jan. 31, 2008 (Unaudited)	Change	Change %	Twelve months ended April 30, 2008
Electricity sales revenues	46,406	74,216	(27,810)	(37%)	90,326
Hurricane Ivan Cost Recovery Surcharge	-	3,270	(3,270)	(100%)	3,269
Fuel factor revenues	103,942	54,277	49,665	92%	82,386
Operating revenues	150,348	131,763	18,585	14%	175,981
Total operating expenses	135,122	106,755	28,367	27%	144,673
Earnings for the period	12,599	19,348	(6,749)	(35%)	23,760
Earnings per Class A Ordinary Share	0.45	0.73	(0.28)	(39%)	0.90
Dividends paid per Class A Ordinary Share	0.495	0.495	0.000	0%	0.660
Capital expenditures	27,994	32,892	(4,898)	(15%)	44,617
Cash flow from operations	23,271	19,246	4,025	21%	31,285

A comparison of eight-month results ended December 31, 2008 to nine-month results ended January 31, 2008 is provided on the basis of CUC's management's view that a comparison of a prior period closer in duration and more similar in seasonality than fiscal 2008 would provide additional insight to readers.

Quite apart from the substantial economic benefits offered by a fuel pipeline, it was seen as becoming more and more of a necessity, not only by Company Directors but also by Government officials and members of the public, as the way to remove the serious hazard posed by the constant back-and-forth shuttling of tanker trucks each heavily-laden with several thousand gallons of volatile fuel. Work began on the 3.2 mile pipeline in January 1988 and it was operational by March 1988. Additional facilities were installed between the two fuel company's depots so that either oil company could operate the pipeline and pump fuel to CUC.

Management's Discussion and Analysis

be accounted for in a similar manner, however, the amount and timing of the recovery or refund would not be subject to regulatory approval.

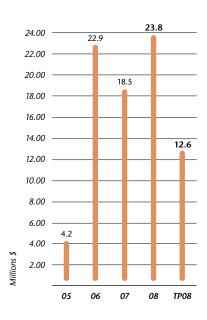
CUC includes forward-looking statements in this material. Forward-looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plan", "believes", "estimates", "intends", "targets", "projects", "forecasts", "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 report were approved by the Audit Committee.

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 Electricity Transmission and Distribution Licence (the "T&D Licence") and a 21.5-year non-exclusive Electricity Generation Licence (collectively the "Licences") granted by the Cayman Islands Government ("Government"), which expire in April 2028 and September 2029 respectively.

The Company currently has an installed capacity of 136.6 megaWatts ("MW"), seven major transformer

Earnings



substations, approximately 348 miles of land-based high-voltage transmission and distribution ("T&D") lines, and 15 miles of high-voltage submarine cable providing electricity to over 24,500 customers.

Corporate and Regulatory Overview

The Licences were signed in April 2008; the terms include allowance for competition for future generating capacity, allowance for engaging in other, non-electricity business opportunities and general promotion of the use of renewable sources of energy. The Licences replace the previous exclusive licence for generation and T&D, which permitted a maximum 15% rate-of-return-on-rate base ("RORB") formula, with a rate cap and adjustment mechanism ("RCAM") based on published consumer price indices. CUC's RORB under the Licences is targeted in the 9% to 11% range.

In December 2007, prior to the April 2008 licence signing, CUC and Government reached an Agreement in Principle ("AIP"), which formed the basis of the licencing documents subsequently signed. Pursuant to the AIP, and effective January 1, 2008, CUC's base rates

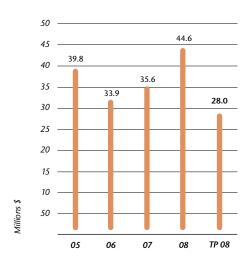


were restructured to extract all fuel costs and licence fee amounts to be passed through to consumers. A new rate class for large commercial customers and a new fuel and lube factor to provide for pass through of all fuel and lubricating oil costs were also implemented in January 2008. In addition to the structural changes, the AIP called for an overall reduction in base rates of 3.25%, which represents an estimated annual revenue reduction to CUC of \$2.1 million. The Company also agreed to the January 2008 removal of the Hurricane Ivan Cost Recovery Surcharge ("CRS"), which resulted in \$2.6 million of foregone cost recovery.

The Electricity Regulatory Authority ("ERA") has the overall responsibility of regulating the electricity industry in the Cayman Islands in accordance with the ERA Law as amended in January 2008. 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. In conjunction with the establishment of the ERA and the issuance of the new licences, the previous CUC Licence Fee of 5/8 of 1% increased to 1% of gross revenues and 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 1/2 of 1% is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The licence and regulatory fees were first applied in the April 2008 customer statements.

Subsequent to the January 2008 rate reduction, rates will continue to be frozen through May 31, 2009 and will be subject to an annual review and adjustment each June thereafter through the RCAM. A price cap mechanism will be used to adjust the base rates in accordance with a formula that takes into account inflation and CUC's RORB. Effective January 1, 2008, the Government began providing a special fuel duty rebate to be applied to the first 1,500 kWh of monthly residential consumption. The rebate is calculated based on \$0.24 (CI\$0.20) per imperial gallon ("IG") of fuel used for generation.

Capital Expenditures



Results of Operations

Effective January 1, 2009, the Company changed its year end from April 30 to December 31. The following analysis of the results of operations for the eight months ended December 31, 2008 includes comparisons to the nine-month period ended January 31, 2008. It is management's view that a comparison of eight-month results ended December 31, 2008 to the nine-month results ended January 31, 2008 will provide additional insight to readers as the period is closer in duration and more similar in seasonality than fiscal 2008 (twelve months ended April 30, 2008). All tables in the MD&A will include the results for the eight months ended December 31, 2008, the nine months ended January 31, 2008 and the twelve months ended April 30, 2008. Performance indicators are also provided for the eight months ended December 31, 2007.

Earnings

Net earnings for the 2008 Transitional Period ended December 31, 2008 were \$12.6 million, a \$6.7 million or 36% decrease from earnings of \$19.3 million for the nine months ended January 31, 2008. This decrease in earnings is due to the differing

In the mid-1970's, an idea was put forth by the Board of Directors in favour of granting a university scholarship to a deserving Caymanian. In 1989, David Watler was awarded the Company's first scholarship to pursue a Bachelor's degree in Mechanical Engineering under CUC's Engineering Scholarship Scheme. Since the granting of this intial scholarship, the Company has maintained a scholarship programme providing the opportunity for young Caymanians to pursue degrees in engineering, accounting, computer science and other fields from accredited universities and colleges.

Management's Discussion and Analysis

lengths of reporting periods, base rate reductions, CRS removal and increased maintenance costs of \$0.2 million, partially offset by lower finance charges of \$2.8 million. Also contributing to this decrease were lower than average temperatures and higher rainfall in the 2008 Transitional Period which negatively impacted kWh sales growth.

Net earnings for the 2008 Transitional Period ended December 31, 2008 were \$12.6 million, an \$11.2 million decrease from earnings of \$23.8 million for the twelve months ended April 30, 2008. The majority of this difference is attributable to the differing lengths of the reporting periods, in addition to the factors discussed above.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the 2008 Transitional Period were \$11.9 million, or \$0.45 per Class A Ordinary Share, as compared to \$18.5 million, or \$0.73 per Class A Ordinary Share for the nine months ended January 31, 2008.

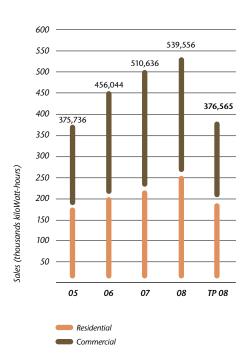
Dividends paid on Class A Ordinary Shares were \$0.495 per share. The Company notes that dividends paid consists of the three distributions of \$0.165 per share that traditionally represented three full quarters of earnings, but due to the change in the reporting period dividends paid are compared to only eight months of earnings in this Report.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the 2008 Transitional Period were \$11.9 million, or \$0.45 per Class A Ordinary Share, as compared to \$22.8 million, or \$0.90 per Class A Ordinary Share for the twelve months ended April 30, 2008.

Sales

Electricity sales increased 2% for the 2008 Transitional Period to 376.6 million kWh from 368.4 million kWh for the eight months ended December 31, 2007. Sales growth for the 2008 Transitional Period was negatively impacted by the increased cost of fuel, which led to energy conservation, above average rainfall and cooler than average temperatures from October through December, which reduced air conditioning load. When compared to the same timeframe for the prior year, temperatures averaged 0.3° Fahrenheit lower per month and rainfall averaged 1.5 inches higher per month.

Residential and Commercial Sales



Electricity sales decreased 30% for the 2008
Transitional Period to 376.6 million kWh from 539.6
million kWh for the twelve months ended April 30,
2008. The difference is substantially attributable to the
differing lengths of the reporting periods, in addition to
the factors dicussed above.

The Company anticipated reduced sales growth for the 2008 Transitional Period when compared to prior periods. This reduced sales growth is reflective of the maturing Cayman Islands economy, and a weakened United States economy. The Cayman Islands economy, in particular the tourism sector, is influenced by the United States economy as the majority of visitors originate from North America. The Company expects that the downturn in the United States economy will negatively affect the Cayman Islands' tourism industry.

The primary drivers of the growth realized are the increases in residential customers and large commercial building projects, such as the 500,000 square-foot Camana Bay Town Centre and 159,000 square-foot Governor's Square Office Centre that came on-line during mid to late fiscal 2008.



Total customers as at December 31, 2008 were 24,518, an increase of 3% compared to 23,745 customers as at January 31, 2008. An average of 60 customers were connected per month for the 2008 Transitional Period as compared to an average of 110 customers per month for the nine months ended January 31, 2008. The majority of new customer growth in the 2008 Transitional Period originated from the residential class.

Total customers as at April 30, 2008 were 24,041.

Significant Performance Indicators

	Two months ended Dec. 31, 2008	Two months ended Dec. 31, 2007	Growth %	Eight months ended Dec. 31, 2008	Eight months ended Dec. 31, 2007	Growth %
Peak load (gross)	83.7	86.0	(2.7%)	93.8	92.7	1.2%
Sales (millions kWh) Net generation	81.6	87.0	(6.2%)	376.6	368.4	2.2%
(millions kWh)	87.5	92.7	(5.6%)	400.7	394.0	1.7%
Customers	24,518	23,615	3.8%	24,518	23,615	3.8%

Operating Revenues

Operating revenues for the 2008 Transitional Period totalled \$150.3 million, a 14% increase compared to \$131.8 million the nine months ended January 31, 2008. This \$18.5 million increase was due to increased fuel factor revenues as a result of higher fuel factor charge out rates which are offset by increased power generation costs (see "Power Generation" section).

Operating revenues for the 2008 Transitional Period totalled \$150.3 million, a 15% decrease compared to \$176.0 million for the twelve months ended April 30, 2008. The majority of this difference is attributable to the differing lengths of the reporting periods.

When comparing the 2008 Transitional Period to the nine months ended January 31, 2008, electricity sales revenues decreased 37%, fuel factor revenues increased 92% and CRS revenues decreased 100%. These differences are attributable to the rate restructuring, removal of the CRS, rising fuel costs and difference in reporting periods. In accordance with the AIP, effective January 2008, the Company implemented a new fuel cost charge to pass through all fuel and lube costs. Previously the Company was only allowed to pass through fuel costs above the base price of \$0.9492 (CI\$0.7973) per IG. Commensurate with the implementation of the new fuel cost charge, the Company removed fuel and lube costs from its base rates. The average fuel factor rate in effect for the eight months ended December 31, 2008 was \$0.26 per kWh as compared to \$0.15 per kWh for the nine months ended January 31, 2008.

CUC was the first Cayman-based company to be listed on the Toronto Stock Exchange. Following an intensive study and advice from the Company's bankers at the time and the exchange, it was felt that this particular exchange was the best venue for CUC to go public. It was agreed that the listing would assist the Company to raise financing in the future when further expansion of our facilities were required. It also facilitated the trading in our shares internationally.

Management's Discussion and Analysis

The following table presents sales and customer highlights:

	Eight months ended Dec. 31, 2008	Nine months ended Jan. 31, 2008	Twelve months ended April 30, 2008
Customers (number)			
Residential	20,847	20,201	20,418
Commercial	3,671	3,544	3,623
Total Customers	24,518	23,745	24,041
Sales (in thousands kWh)			
Residential	175,386	193,261	251,086
Commercial	197,344	213,471	283,006
Other (street lights, etc.)	3,835	4,064	5,464
Total Sales	376,565	410,796	539,556
Revenues (in thousands of \$)			
Residential	21,980	35,792	43,173
Commercial	23,490	37,517	45,912
Other (street lights, etc.)	936	907	1,241
Cost recovery surcharge	-	3,270	3,269
Fuel cost charge	103,942	54,277	82,386
Total operating revenues	150,348	131,763	175,981

Operating Expenses

Total operating expenses for the 2008 Transitional Period increased 27% to \$135.1 million from \$106.8 million for the nine months ended January 31, 2008. This increase was mainly due to rising fuel costs (see "Power Generation" section) and increased maintenance expenses.

Total operating expenses for the 2008 Transitional Period decreased 7% to \$135.1 million from \$144.7 million for the twelve months ended April 30, 2008. The majority of this difference is attributable to the differing lengths of the reporting periods, partially offset by rising fuel costs.

Operating expenses were as follows (\$ thousands):

	Eight months ended Dec. 31, 2008	Nine months ended Jan. 31, 2008 (Unaudited)	Change	Change %	Twelve months ended April 30, 2008
Power generation expenses	106,940	76,467	30,473	40%	102,913
General and administration	6,871	8,736	(1,865)	(21%)	11,582
Consumer service and promotion	1,109	1,231	(122)	(10%)	1,802
Transmission and distribution	1,780	2,175	(395)	(18%)	3,134
Depreciation and amortisation	12,174	12,146	28	0%	16,669
Maintenance	6,248	6,000	248	4%	8,573
Total operating expenses	135,122	106,755	28,367	27%	144,673



Power Generation

Power generation expenses for the 2008 Transitional Period increased \$30.5 million or 40% to \$106.9 million from \$76.5 million for the nine months ended January 31, 2008. This increase was driven by higher fuel costs and higher production levels. KiloWatt-hour generation for the 2008 Transitional Period equalled 400.7 million kWh, while kWh generation for the nine months ended January 2008 equalled 410.8 million kWh. A new peak load of 93.8 MW was achieved in September 2008, a 1% increase over the previous peak of 92.7 MW achieved in August 2007.

Power generation expenses for the 2008 Transitional Period increased \$4.0 million or 4% to \$106.9 million from \$102.9 million for the twelve months ended April 30, 2008. This increase was driven by higher fuel costs. Power generation expenses were as follows (\$ thousands):

	Eight months ended Dec. 31, 2008	Nine months ended Jan. 31, 2008 (Unaudited)	Change	Change %	Year ended April 30, 2008
Fuel costs	94,784	79,951	14,833	19%	111,161
Lube costs	1,619	1,289	330	26%	1,718
Deferred fuel charges	8,603	(7,142)	15,745	(220%)	(13,181)
Deferred lube charges	(127)	-	(127)	100%	-
Other generation expenses	2,061	2,369	(308)	(13%)	3,215
Total power generation expenses	106,940	76,467	30,473	40%	102,913

The average price per IG of fuel increased to \$4.45 in the 2008 Transitional Period from \$3.40 during the nine months ended January 31, 2008. Power generation expenses comprise 79% of CUC's total operating expenses for the 2008 Transitional Period. The average price per IG for the twelve-month period ended April 30, 2008 was \$3.57.

During the last few months of the 2008 Transitional Period, a reduction in fuel prices resulted in the Company recognising deferred fuel and lube charges in the amount of \$8.5 million for the eight months. Fuel costs deferred at the close of January 31, 2008 totalled \$7.1 million. Fuel costs deferred at the close of April 30, 2008 totalled \$13.2 million.

Prior to January 2008 a portion of fuel costs was included in the base rate and recorded as 'Electricity Sales'. This portion of fuel costs was billed in the month incurred and subsequently the related cost was recognised immediately. Per the AIP all fuel costs were removed from the base rate, and fuel costs and lube costs were billed separately. Beginning January 2008, the total proceeds of these billings were recorded as 'Fuel Factor' revenues. The Company defers excess fuel costs until they can be collected from customers on a two-month delay basis. This increased deferral reflects the revised billing method and accordingly a change in this account for any particular period is a result of timing.

Total fuel costs are now 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 eight months ended December 31, 2008 totalled \$0.9 million.

The Fuel Tracker Account (see Note 5 in the Notes to Financial Statements) is comprised of total diesel fuel and lube oil costs. Prior to January 2008 only the portion of diesel fuel costs which exceeded the \$0.94 per IG included in base rates were deferred (see the "Corporate and Regulatory Overview" section).

General and Administration (G&A)

G&A expenses in the 2008 Transitional Period totalled \$6.9 million, a decrease of \$1.8 million from \$8.7 for the nine months ended January 31, 2008. Contributing to this decrease was the capitalisation of general expenses, a provision of the 2008 licence agreements. General expenses capitalised ("GEC") in the 2008 Transitional Period totalled \$0.6 million (refer to Note 1 in the Notes to Financial Statements for further details regarding GEC).

The Company joined Power Smart line, a programme founded in 1989 by British Columbia Hydro (BC Hydro) promoting awareness of how consumers can get more for their energy dollar with a focus on customer service. Power Smart initiatives promote a wide variety of energy efficient products, services and programmes delivering energy savings to consumers. CUC's Energy Smart Programme was developed as a result of the affiliation with Power Smart Inc. and BC Hydro.

Management's Discussion and Analysis

G&A expenses in the 2008 Transitional Period were inline with the Company's expectations

G&A expenses in the 2008 Transitional Period decreased \$4.7 million compared to \$11.6 million for the twelve months ended April 30, 2008. The majority of this difference is attributable to the differing lengths of the reporting periods, in addition to the factors discussed above.

Consumer Services and Promotion (C&P)

C&P expenses in the 2008 Transitional Period totalled \$1.1 million, a \$0.1 million or 10% decrease from \$1.2 million for the nine months ended January 31, 2008.

C&P expenses in the 2008 Transitional Period decreased \$0.7 million from \$1.8 million for the twelve months ended April 30, 2008. The majority of this difference is attributable to the differing lengths of the reporting periods.

Transmission and Distribution (T&D)

T&D expenses in the 2008 Transitional Period totalled \$1.8 million, a decrease of \$0.4 million from \$2.2 million for the nine months ended January 31, 2008. The decrease was partially the result of T&D team members assisting Cayman Brac Power & Light with recovery efforts after Hurricane Paloma as well as assisting with recovery efforts in the Turks and Caicos Islands following Hurricane Ike and the resulting labour recharge.

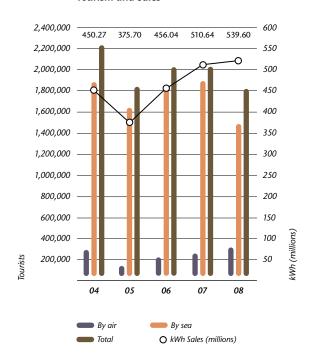
T&D expenses in the 2008 Transitional Period decreased \$1.3 million from \$3.1 million for the twelve months ended April 30, 2008. The majority of this difference is attributable to the differing lengths of the reporting periods, in addition to the factors discussed above.

Depreciation and Amortisation (D&A)

D&A expenses in the 2008 Transitional Period totalled \$12.2 million, which was comparable to expenses incurred for the nine months ended January 31, 2008. Growth-related capital expenditures are the cause of the trend for increasing costs which would have been evident in an equal period comparison. Based upon current capital expenditure projections, continued increases in D&A are expected.

D&A expenses in the 2008 Transitional Period decreased \$4.5 million from \$16.7 million for the twelve months ended April 30, 2008. The majority of this difference is attributable to the differing lengths of the reporting periods.

Tourism and Sales



Maintenance

Maintenance expenses in the 2008 Transitional Period totalled \$6.2 million, an increase of \$0.2 million from \$6.0 million for the nine months ended January 31, 2008. Maintenance expenses for the 2008 Transitional Period were in-line with the Company's expectations and due to scheduled maintenance on generating units.

Maintenance expenses in the 2008 Transitional Period decreased \$2.4 million from \$8.6 million for the twelve months ended April 30, 2008. The majority of this difference is attributable to the differing lengths of the reporting periods.

Other Income and Expenses

Finance charges in the 2008 Transitional Period totalled \$5.2 million compared to \$8.0 million for the nine months ended January 31, 2008.

Finance charges decreased \$5.4 million to \$5.2 million for the eight months ended December 31, 2008 compared to \$10.6 million for the twelve months ended April 30, 2008.

The Company's policy prior to the licence signing was to capitalise interest on all significant construction



projects, which is included as a cost in the appropriate capital assets account until the asset is available for service. Interest expense capitalised for the nine months ended January 31, 2008 was \$0.6 million. This methodology was ceased in April 2008 as under the new 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 the 2008 Transitional Period is 10% as agreed with the ERA in accordance with the T&D Licence and will be reviewed annually. The AFUDC amount for the eight months ended December 31, 2008 totalled \$2.6 million.

Foreign exchange gains totalled \$1.4 million in the 2008 Transitional Period, an increase of \$0.2 million from \$1.2 million for the nine months ended January 31, 2008. The increase is attributable to increased private currency exchanges at favourable rates in the 2008 Transitional Period.

Foreign exchange gains in the 2008 Transitional Period decreased \$0.2 million from \$1.6 million for the twelve months ended April 30, 2008. The majority of this difference is attributable to the differing lengths of the reporting periods.

Other income in the 2008 Transitional Period is comparable to that earned in the nine months ended January 31, 2008.

Other income in the 2008 Transitional Period decreased \$0.3 million from \$1.4 million for the twelve month-period ended April 30, 2008. The majority of this difference is attributable to the differing lengths of the reporting periods.

(\$ thousands)	Eight months ended Dec. 31, 2008	Nine months ended Jan. 31, 2008 (Unaudited)	Change	Change %	Year ended April 30, 2008
Total interest costs	(7,748)	(8,578)	830	(10%)	(11,370)
Capitalised interest	-	596	(596)	(100%)	806
AFÜDC	2,595	-	2,595	100%	-
Total finance charges	(5,153)	(7,982)	2,829	(35%)	(10,564)
Foreign exchange gain	1,420	1,165	255	22%	1,572
Other income	1,106	1,157	(51)	(4%)	1,444
Total net other expenses	(2,627)	(5,660)	3,033	(54%)	(7,548)

The Economy

According to the Government's 2009/2010 Strategic Policy Statement, the prevailing outlook of continuous weakening in global economic performances in 2009 will be transmitted to softer performances in local industries. It is Government's view that unlike credit difficulties abroad, the retail banking sector in the Cayman Islands will maintain its robust supply of credit to businesses and households.

The Cayman Islands Monetary Authority ("CIMA") reported that there were a total of 278 registered banks at the end of December 2008, one less than at the end of September 2008 and three less than at the end of December 2007. It is CIMA's view that the fundamentals of the banking sector remain sound and the industry in general has been relatively resilient in a very challenging market environment. Banks continue to consolidate and restructure in search of cost efficiencies, and improvements in operational risk management and governance.

Another positive trend has been the 4% increase in stay-over tourism when compared to 2007. However, the Government forecasts that stay-over tourism will experience challenges due to the weak growth prospects for the United States and other advanced economies. Additionally, increasing competition from other markets such as Europe may pose a challenge to the Cayman Islands tourism sector, based on robust booking trends for European cruise packages by North American travellers. As at the close of 2008 average occupancy rates were higher for 2008 when compared to 2007 with hotels averaging a 62.2% occupancy rate compared to 61.8% in 2007, and condominiums averaging 44.0% for 2008 as compared to 41.5% for 2007.

Government has initiated the implementation of several infrastructure improvements. One of the largest

In February, CUC formally signed a 10-year generation strategic alliance agreement with MAN Diesel SE of Germany to design and install diesel generating units on a turnkey basis, the first phase of which involved the installation of two 12.25 MW V46/60 MAN generating units. The agreement was made to satisfy CUC's long-term generation needs on an as-required basis while providing "most-preferred customer" pricing, shorter delivery leadtimes and standardisation of euipment, spare parts and training.

Management's Discussion and Analysis

projects involves expansion of the airport in Grand Cayman which is to triple in size to 205,000 square feet. The Government's estimated completion date of this project is June 2010. Government has also commenced construction of a new five-storey administration building. Upon completion of this building, which is scheduled for 2011, this structure will be the largest office building in the Cayman Islands at 185,000 square feet. Plans are in progress regarding the development of cruise berthing facilities as the Government hopes to improve the ease with which cruise passengers disembark. The plans would establish facilities which have the capacity to serve a maximum of eight vessels; four berthed and four utilising tenders with a passenger capacity of up to 23,500 passengers per day.

The Company views the continued investment by Government in the economy as a positive sign. These and other infrastructure projects will play a vital role in the economy and CUC's growth. Increased visitors lead to higher occupancy rates in hotels and eventually developmental growth as businesses and additional hotels emerge in response to the needs of the visitors.

The following table presents tourist statistics for the years ended December 31:

Arrivals	2008	2007	2006	2005	2004
By Air By Sea	302,879 1,553,053	291,503 1,715,666	267,258 1,923,597	167,801 1,798,999	259,929 1,693,293
Total	1,855,932	2,007,169	2,190,855	1,966,800	1,953,222

The above statistics were obtained from the website of the Cayman Islands Department of Tourism (www.caymanislands.ky).



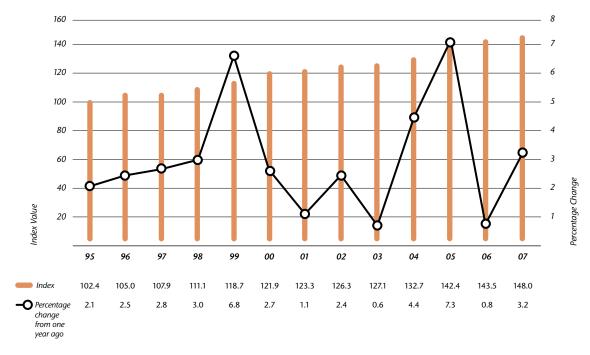
Construction began in 2008 on the new five-storey, 185,000 square-foot Government Administration Building in George Town, which is scheduled for completion in 2011. Once completed, the building will be the largest office building in the Cayman Islands and will house several Government departments.



The Consumer Price Index ("CPI") for the Cayman Islands experienced a significant increase of 7% in 2005 following Hurricane Ivan. The CPI increased by 3.2% in 2007 from 2006. Household equipment, personal goods and services and food were the highest inflationary groups in the latest report.

The CPI increase up to September 2008 was 7.4% over the same period in 2007.

Consumer Price Index



CPI Information can be obtained from the website of the Cayman Islands Economic and Statistics Office (www.eso.ky)

Liquidity

The following table outlines a summary of cash flow (in \$ thousands):

	Eight months ended Dec. 31, 2008	Nine months ended Jan. 31, 2008 (Unaudited)	Change	Change %	Year ended April 30, 2008
Beginning cash Cash provided by/(used in):	1,268	6,891	(5,623)	(82%)	6,891
Operating activities	23,271	19,246	4,025	21%	31,285
Investing activities	(27,928)	(33,141)	5,213	(16%)	(44,698)
Financing activities	4,820	8,328	(3,508)	(42%)	7,790
Ending cash	1,431	1,324	107	8%	1,268

The steady growth pattern seen in the late 1990s and early 2000s required CUC to undertake major capital projects on its T&D system. Our substation strategic alliance partner, ABB, commenced the rebuilding of our 69 kV substation located at the North Sound Road Power Plant. The 69 kV indoor gas-insulated switchgear substation included three newly installed 69 kV power transformers.

Management's Discussion and Analysis

Operating Activities

Cash flow from operations after working capital adjustments for the 2008 Transitional Period was \$23.3 million, a 21% increase compared to \$19.2 million for the nine months ended January 31, 2008.

Cash from operating activities for the 2008 Transitional Period decreased by \$8.0 million, or 26% when compared to twelve months ended April 30, 2008. This decrease is mostly due to an \$11.2 million decrease in net earnings attributable in large part to the differing lengths of reporting periods, base rate reductions and removal of the CRS.

Investing Activities

Cash used in investing activities decreased \$5.2 million to \$27.9 million for the 2008 Transitional Period, from \$33.1 million for nine months ended January 31, 2008.

Cash used in investing activities decreased \$16.8 million to \$27.9 million for the 2008 Transitional Period, from \$44.7 million for twelve months ended April 30, 2008 as a result of lower capital expenditures (see the "Capital Expenditure" section).

Financing Activities

Cash received from financing activities decreased 42% to \$4.8 million for the 2008 Transitional Period from \$8.3 million for the nine months ended January 31, 2008. In the nine months ended January 31, 2008 \$48.0 million was received in debt financing versus \$16.5 million for the 2008 Transitional Period. Conversely, \$29.0 million was received as proceeds for share issues in the 2008 Transitional Period as compared to \$0.7 million received in the nine months ended January 31, 2008.

Cash received from financing activities decreased 38% to \$4.8 million for the 2008 Transitional Period from \$7.8 million for the twelve months ended April 30, 2008. In the twelve months ended April 30, 2008, \$48.0 million was received in debt financing versus \$16.5 million for the 2008 Transitional Period. Conversely, \$29.0 million was received as proceeds for share issues in the 2008 Transitional Period as compared to \$1.0 million received in the twelve months ended April 30, 2008.

In the 2008 Transitional Period \$16.5 million in debt proceeds were received. This \$16.5 million of borrowings was short-term in nature and utilised to fund capital projects in progress. Of the debt proceeds, \$16.5 million was repaid. As at December 31, 2008 \$8.0 million of the \$17.0 million capital expenditure line of credit were utilised.

On June 23, the Company filed a rights offering circular with the Canadian Securities Administrators. The rights became exercisable on July 15, 2008 and expired on August 15, 2008. Share purchases under the rights offering totalled \$28.2 million.

Transactions with Related Parties

In July and August 2008, Fortis Energy (Bermuda) Ltd., the Company's majority shareholder, provided funds for the purchase of shares related to the rights offering filed in June 2008. Under the rights offering, each shareholder received one right per Class A Ordinary Share held as at July 14, 2008. A total of 10 rights enabled shareholders to acquire one Class A Ordinary Share of the Company at a subscription price of \$11.09 per share. Funds received from Fortis Inc. amounted to \$23.9 million and funds received from other subscribers amounted to \$4.3 million bringing the total amount of funds received at December 31 to \$28.2 million. The funds were applied to share capital and share premium. The basic subscription by Fortis Energy (Bermuda) Ltd. totalled 2,156,148 shares. Fortis Energy (Bermuda) Ltd. now holds 15,989,328 shares; approximately 57% of the outstanding Class A Ordinary Shares of CUC.

In September 2008, Hurricane lke hit the Turks and Caicos Islands as a Category 4 storm; the damage from the storm was substantial. A contingent of employees from CUC assisted with the restoration efforts. This included "manpower contributions" to Provo Power, a member of the Fortis group of companies. These financial statements include a receivable of \$0.1 million for the cost of the Company's labour in the reconstruction of T&D assets. This amount remains outstanding as at December 31, 2008.

Miscellaneous receivables from Fortis Inc. totalling to \$0.05 million remain outstanding as at December 31, 2008.



Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at December 31, 2008, are outlined in the following table (in \$ millions):

	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt *	174.6	22.1	29.2	34.8	88.5
MAN Diesel SE generation expansion contract	19.4	19.4	-	-	
Defined Pension	0.5	0.5	-	-	
Total	194.5	42.0	29.2	34.8	88.5

 $f{*}$ Includes long-term debt, including current portion, and short-term debt, net of deferred debt issue costs.

The Company has a primary fuel supply contract with Esso Standard Oil S.A. Limited ("Esso") and is committed to purchase 80% of the Company's diesel fuel requirements for its generating plant from Esso. The contract is for three years terminating in April 2010. The approximate remaining quantities per the contract on an annual basis are, in millions of IGs: 2009 - 27.2, 2010 - 9.3.



Construction began in 2008 on 89 Nexus Way, a 133,000 square-foot office complex (left of photo), which forms part of the second phase of the 500-acre Camana Bay development. 89 Nexus Way is scheduled for completion in late 2009.

2000: Completion of Central Control Room - Optimising operations for reliability and efficiency
The Company's 3,200 square-foot central control room became operational, housing the recently implemented Integrated Control System (ICS).
The ICS brought to the Company a technological development linking generating units and substations to the new control room. The ICS enables Control Operators to have more information readily available, allows more accurate engineering data for optimising the system for losses and minimises the labour needed to operate it. The control room was designed to withstand 200 mph winds.

Management's Discussion and Analysis

Financial Position

The following table ("Changes in Balance Sheets") is a summary of significant changes to the Company's balance sheet from April 30, 2008 to December 31, 2008.

Changes in Balance Sheets

(from April 30, 2008 to December 31, 2008)

Balance Sheet Account	Increase/(Decrease) (\$ millions)	Explanation
Accounts receivable - Trade	(1.9)	Decrease due to reduced sales as a result of lower temperatures.
Regulatory Assets	(3.6)	Due to reduced sales and dropping fuel costs, fuel costs deferred as at December 31, 2008 are lower than costs deferred as at April 30, 2008 causing a decrease in regulatory assets.
Inventories	(6.2)	Decrease due to compliance with CICA Section 3031. Inventory relating to Capital Assets is now included in Property Plant and Equipment.
Prepayments	0.9	Most annual contracts for the upcoming year are renewed in December, leading to higher prepayments when compared to April.
Property, Plant and Equipment	16.0	Net increase is comprised of capital expenditures of (1) \$28.0 million and (2) depreciation expense of \$12.2 million.
Accounts Payable and Accrued Expenses	(12.1)	Change mainly attributable to reduction in accrued expenses from \$5.7 million at April 2008 to \$3.3 million at December 2008 and reduction in amounts owed to fuel creditors from \$21.1 million at April 2008 to \$12.2 million at December 2008.
Current Portion of Long-Term Debt	3.7	Increase due to portions of long-term debt classified as current in June 2008.
Long-Term Debt	(13.9)	Decrease due to semi-annual principal payments made in June and portions allocated to current debt. No new debt was incurred during the period
Share premium	28.9	Increase due to rights offering shares issued.
Retained Earnings	(1.5)	Decrease due to net earnings for the period of \$12.6 million offset by Class A dividends of \$13.4 million and Class B dividends of \$0.7 million.



Liquidity and Capital Resources

Capital Structure

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

The Company's objectives when managing capital are to maintain and acquire the assets necessary to provide electricity to the growing Grand Cayman community efficiently and as needed with new developments. The Company also aims to manage capital in order to continue providing returns for shareholders and benefits for other stakeholders.

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

The Company's capital structure is shown below (in \$ millions):

	Dec. 31, 2008	%	Jan. 31, 2008 (Unaudited)	%	April 30, 2008	%
Total debt Shareholder's equity	174.6 170.0	51 49	184.7 142.0	57 43	184.8 142.5	56 44
Total	344.6	100	326.7	100	327.3	100

The change in the Company's capital structure between January 31, 2008 and December 31, 2008 was driven by an increase in equity resulting from the rights offering and net earnings for the period.

The Company's credit ratings are as follows:

Agency	Rating
Standard & Poor's (S&P)	A/Stable
Dominion Bond Rating System (DBRS)	A (low)

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

Defined Benefit Pension Plan

As at December 31, 2008, the Company's funded defined benefit pension plan was in a net unfunded status of \$2.2 million compared to a net unfunded status of \$2.3 million as at April 30, 2008. The Company's consolidated pension plan assets decreased from \$3.1 million as at April 30, 2008 to \$2.9 million as at December 31, 2008, representing a 6% decline in asset levels. During the 2008 Transitional Period, pension plan assets experienced actual negative returns of \$0.4 million compared to estimated positive returns of \$0.1 million. Assumed discount rates have increased as a result of the impact of increased credit spreads and cost of capital on the interest rates on investment grade corporate bonds.

The next actuarial valuation is scheduled for the period ending December 31, 2010. The Company does not expect any difficulty in its ability to meet any future additional consolidated funding requirements as it expects the amounts will be sourced from cash generated from operations.

The Company expects the net pension expense for fiscal 2009 to increase \$0.3 million over the 2008 Transitional Period. This increase is expected to be driven by the amortisation of the 2008 Transitional Period losses associated with the pension assets and a lower assumed long-term rate of return on pension assets for fiscal 2009. This increase in net pension expense is expected to be partially offset by the impact of increased discount rates assumed in the measurement of the interest expense component of pension expense.

The South Sound Substation, the first of four indoor gas-insulated switchgear substations, was designed to withstand hurricane force winds up to 150 mph and resembles a traditional Caymanian-style house. This unmanned substation is home to electrical equipment which provides four distribution feeders to improve service to customers in the South Sound, Walkers Road and Fern Garden areas. It is monitored and controlled remotely by CUC's computerised Central Control Room facility at the Company's North Sound Road Power Plant.

Management's Discussion and Analysis

Credit Facilities

The Company has \$33.2 million of unsecured credit financing facilities with Royal Bank of Canada ("RBC") comprising:

	Details
Corporate Credit Card Line Letters of Credit Operating, Revolving Line of Credit Catastrophe Stand by Loan Demand Loan Facility - Interim Funding of Capital Expenditures	\$0.3 million \$0.9 million \$7.5 million \$7.5 million \$17.0 million
Total	\$33.2 million

Of the total above, \$19.8 million was available at December 31, 2008.

Capital Expenditures

Capital expenditures for the eight months ended December 31, 2008 were \$28.0 million. Below are the main projects (which contributed to capital expenditure):

- » Distribution system extension and upgrades \$4.8 million.
- » Transmission system expansion and upgrades 69 kiloVolt ("kV") line extension to close the Frank Sound loop \$2.1 million.
- » Generation system upgrades \$2.1 million.
- » Generation system MAN Diesel SE 16 MW generating unit totalling \$2.7 million.
- » Inventory that has met the criteria of Property, Plant and Equipment ("PP&E") in accordance with CICA Section 3031 has been added to work in progress and is included in Capital Expenditures. For the eight months ended December 31, 2008, \$4.1 million was allocated to Distribution and \$1.5 million was allocated to Transmission, totalling \$5.6 million reallocated from Inventories to capital work in progress.
- » AFUDC of \$2.6 million was capitalised in the eight months ended December 31, 2008.

Capital Expenditures

(in \$ millions)

	Eight months ended Dec. 31, 2008	Nine months ended Jan. 31, 2008 (Unaudited)	Twelve months ended April 30, 2008
Transmission	4.3	2.6	2.2
Distribution	11.5	9.4	10.8
Generation	10.7	8.0	19.3
Other	1.5	4.1	12.3
Total	28.0	24.1	44.6

The cash required to complete future capital programmes is expected to be derived from a combination of long-term and short-term financing and internally generated funds. CUC does not anticipate any difficulties accessing the required capital on reasonable market terms.



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 is the case 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 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.

CUC was initially registered to the ISO 14001 standard in 2004 and continuously maintains an Environmental Management System ("EMS"). 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 Government and are required to assess the financial impact of compliance by the Company within 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 cost of expansion to existing generating facilities 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, 2008 under similar 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 and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$0.5 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1 million and maximum deductible of \$4.0 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 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.

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 2009, is 3%. This compares to assumed long-term rates of return of 5% used during the 2008 Transitional Period. The loss on pension plan assets during the 2008 Transitional Period was (12%).

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 amortisation 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 contributions to the pension plan that differ significantly from current estimates as well as causing material changes in pension expense. The discount rate assumed as at December 31, 2008 and for 2009 is 6.0% compared to the discount rate assumed during the 2008 Transitional Period which was 6.5%.

There is also measurement uncertainty associated with pension expense, future funding requirements, the accrued benefit asset, accrued benefit liability and benefit obligation which is 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

Inventories

Effective May 1, 2008, the Company adopted the following Handbook Sections recently introduced by the Canadian Institute of Chartered Accountants. Section 3031, Inventories, replaces the existing standard, Inventories, Section 3030. The new standard requires inventories to be measured at the lower of cost or net realisable value and disallows the use of a last-infirst-out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write down is to be reversed. As at December 31, 2008, inventories of \$5.6 million (net of provision for obsolescence) 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.

Capital Disclosures

Effective May 1, 2008, the Company adopted the new CICA Handbook section 1535 - Capital Disclosures. It requires CUC to include additional information in the notes to the financial statements about its capital and the manner in which it is managed. The additional disclosure includes quantitative and qualitative information regarding objectives, policies and processes for managing capital. This new standard did not have any impact on the Company's financial results.

Disclosure and Presentation of Financial Instruments

Sections 3862 and 3863 of the CICA Handbook set out new accounting recommendations for disclosure and presentation of financial instruments, which became effective for the company on May 1, 2008. The new recommendations require disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Company is exposed. These recommendations did not have any impact on the Company's financial results.

Future Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011.

On June 27, 2008 the Canadian Securities Administrators ("CSA") issued Staff Notice 52-321, Early Adoption of IFRS which indicated that the CSA would be prepared to grant an exemption to allow Canadian financial statement issuers to adopt IFRS early on a case-by-case basis, provided that they could demonstrate that they met certain conditions. The Company is not planning to adopt IFRS early.

The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The AcSB proposes that CICA Handbook Section - Accounting Changes, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the



entity has not applied, not be applied with respect to the IFRS Omnibus Exposure Draft.

CUC is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as systems changes that may be necessary to gather and process the required information.

CUC commenced its IFRS conversion project in 2007 and has established a formal project governance structure which includes the Audit Committee, senior management and a project team. Regular reporting occurs to the Audit Committee of the Board of Directors where appropriate. An external expert advisor has been engaged to assist in the IFRS conversion project.

The 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, has been completed. The resulting identified areas of accounting difference of highest potential impact to CUC, based on existing IFRS, are rate regulated accounting, property plant and equipment, provisions and contingent liabilities, employee benefits, impairment of assets, and initial adoption of IFRS under the provisions of IFRS 1 First-Time Adoption of IFRS.

Phase Two: Analysis and Development is nearing completion, and involves 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 and audit committee training; analysis of IFRS 1 optional exemptions and mandatory exceptions to the general requirement for full retrospective application upon transition to IFRS; summarisation of 2011 IFRS disclosure requirements; and development of required solutions to address identified issues.

It is anticipated that the adoption of IFRS will have an impact on information systems requirements. The need for system upgrades or modifications to ensure an efficient conversion to IFRS is being assessed. As part of Phase Two, information systems plans are being prepared for implementation in Phase Three. The extent of the impact on information systems is not reasonably determinable at this time.

The Company has completed a preliminary assessment of the impacts of adopting IFRS on debt covenants and other contractual arrangements; however, a final assessment cannot be completed at this time pending the outcome of the project on rate-regulated activities that was recently added to the International Accounting Standards Board's ("IASB's") technical agenda.

The Company will work with the ERA to identify transitional issues and suggest how those issues might be addressed.

Phase Three: Implementation and Review, expected to commence mid-year 2009, will involve the execution of changes to information systems and business processes; completion of formal authorisation 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 in business processes; and, audit committee approval of IFRS compliant financial statements.

CUC will continue to review all proposed and continuing projects of the IASB, particularly the project on rate-regulated activities that was recently added to the IASB's technical agenda, and proposed amendments to IFRS 1 for entities with operations subject to rate regulation, and will participate in any related processes as appropriate.

Rate-Regulated Operations

In March 2007, the AcSB issued an Exposure Draft on rate regulated operations that proposed: (i) the temporary exemption in Section 1100, Generally Accepted Accounting Principles, of the CICA Handbook providing relief to entities subject to rate regulation from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation be removed; (ii) the explicit guidance for rate-regulated operations provided in Section 1600, Consolidated Financial Statements, Section 3061, Property, Plant and Equipment, and Section 3475, Disposal of Long-Lived Assets and Discontinued Operations, be removed; and (iii) Accounting Guideline 19, Disclosures by Entities Subject to Rate Regulation ("AcG-19"), be retained as is.

In August 2007, the AcSB issued a Decision Summary on the Exposure Draft that supported the removal of the temporary exemption in Section The installation of 14.5 miles of cable via a cable-laying barge in the North Sound to loop the Company's transmission and distribution system provides for future load growth and enhanced service reliability. The cable was brought ashore very carefully through the mangrove islands in the Cayman Kai area. The cable was held afloat by a tubular flotation device and fed into an underwater pipe that allowed the cable to be installed in the onshore transitional manhole for connection to a land-based cable.

Management's Discussion and Analysis

1100, Generally Accepted Accounting Principles to offset regulatory assets and liabilities by entities subject to rate regulation. The change will apply prospectively for fiscal years beginning on or after January 1, 2009. The AcSB also decided that the current guidance for rate-regulated operations pertaining to property, plant and equipment, disposal of long-lived assets and discontinued operations, and consolidated financial statements be maintained, and that the existing AcG-19 will not be withdrawn from the CICA Handbook but that the guidance will be updated as a result of the other changes. The AcSB also decided that the final Background Information and Basis for Conclusions associated with its rate regulation project would not express any views of the AcSB regarding the status of US Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, as "another source of GAAP" within the Canadian GAAP hierarchy.

Effective January 1, 2009, with the removal of the temporary exemption in 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 1600, 3061, 3465, and 3475. All assets and liabilities arising from rate regulation described in Note 5 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. These assets and liabilities qualify for recognition as assets and liabilities under Section 1000. Therefore, there would be no effect on the Company's financial statements if it had adopted the removal of the temporary exemption in Section 1100, for the year ended December 31, 2008. CUC is continuing to assess and monitor any additional implications on its financial reporting related to accounting for rate regulated operations.

Goodwill and Intangible Assets

Effective January 1, 2009, the Company will be adopting the new CICA Handbook Section 3064 - Goodwill and Intangible Assets. This Section, which replaces 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 estimated effect on the Company's financial statements, if it had adopted amended Section 3064, as at December 31, 2008, would have been an increase in intangible assets of \$0.2 million, a reduction in utility capital assets of \$0.2 million for the reclassification of the net book value of computer software costs. The Company is continuing to assess any additional financial reporting impact of adopting this standard.

Financial Instruments

The fair value of long-term debt is based on current pricing of financial instruments with comparable terms. The carrying and fair values of the Company's long-term debt obligations are shown in the table that follows (in \$ thousands).

	Carrying Value	Fair Value	Carrying Value	Fair Value
	Dec. 31, 2008	Dec. 31, 2008	April 30, 2008	April 30, 2008
8.47% Senior Unsecured Loan Notes due 2010	3,000	3,082	4,500	5,359
6.47% Senior Unsecured Loan Notes due 2013	12,500	12,490	15,000	16,452
7.64% Senior Unsecured Loan Notes due 2014	18,000	18,610	21,000	23,522
6.67% Senior Unsecured Loan Notes due 2016	24,000	24,150	27,000	29,461
5.09% Senior Unsecured Loan Notes due 2018	40,000	37,561	40,000	38,694
5.96% Senior Unsecured Loan Notes due 2020	30,000	29,087	30,000	30,657
5.65% Senior Unsecured Loan Notes due 2022	40,000	33,448	40,000	35,615
3% European Investment Bank #3 due 2009	266	251	528	500
Total	167,766	158,679	178,028	180,260



Management's Discussion and Analysis

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

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, 2008, the amount of unbilled revenue recorded in Accounts Receivable - Trade was \$2.1 million (January 31, 2008: \$0.7 million, April 30, 2008: \$0.7 million). The unbilled revenue for the 2008 transitional period saw an increase due to the institution of a bill date change; this change was implemented in increments resulting in shorter billing periods. Meters for the month of December 2008 were read for 20 days of consumption as opposed to 30 or 31.

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, 2008, the amount of estimated kWh sales was 14.5 million kWh's (January 31, 2008: \$0, April 30, 2008: \$0). Due to the implementation of a bill date change it was necessary to accrue for kWh's for accurate reporting. The bill date change was implemented in increments resulting in shorter billing periods. Meters for the month of December 2008 were read for 20 days of consumption as opposed to 30 or 31.

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, 2008, the Company had an accrued benefit liability of \$0.09 million (April 30, 2008: \$0.09 million; January 31, 2008: \$0.1 million).

During the 2008 Transitional Period the Company recorded net pension expense of \$0.5 million (April 30, 2008: \$0.5 million; January 31, 2008: \$0.4 million).

Property, Plant and Equipment Depreciation

Depreciation, by its very nature is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at December 31, 2008, the net book value of the Company's Property, Plant and Equipment was \$330.8 million compared to \$314.7 million as at April 30, 2008 and \$308.0 million as at January 31, 2008, increasing as a result of the Company's generation and T&D capital expenditures.

2004: International environmental certification - Responsible environmental leadership
CUC received ISO 14001:1996 environmental certification from the Quality Management Institute (QMI) for all aspects of the Company's North Sound Road Power Plant. This certification marked international achievement and recognition of CUC's environmental protection initiatives and performance. CUC was the first company in the Cayman Islands and one of the first electrical utilities in the Caribbean to gain ISO 14001

Management's Discussion and Analysis

December 31, 2008 was \$12.2 million and \$16.7 million for the year ended April 30, 2008, \$12.1 million for the nine months ended January 31, 2008. Due to the value of the Company's property, plant and equipment, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

Selected Annual Financial Information

	Eight	Nine	Twelve
(In \$ thousands except for per share information)	months ended	months ended	months ended
	Dec. 31, 2008	Jan. 31, 2008	April 30, 2008
Operating revenues	150,348	131,763	175,981
Net earnings	12,599	19,348	23,760
Net earnings applicable to common shares	11,894	18,530	22,830
Total assets	373,987	356,558	368,249
Debt	174,643	184,722	184,790
Preference shares	250	250	250
Total shareholder's equity	169,994	142,024	142,472
Earnings per Class A Ordinary Share	0.45	0.73	0.90
Diluted earnings per Class A Ordinary Share	0.45	0.73	0.90
Dividends declared per Class A Ordinary Share Dividends declared per Class B Preference Share	0.495	0.495	0.66
including bonus	2.82	2.82	3.72

Quarterly Results

The table below ("Quarterly Results") summarises unaudited quarterly information for each of the eight quarters from April 30, 2007 through December 31, 2008. This information has been obtained from CUC's unaudited interim Financial Statements, which in the opinion of management, have been prepared in accordance with GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarterly Results (unaudited)

(expressed in \$ thousands)

Quarter ended	Operating Revenue	Net Earnings	Income Applicable to Ordinary Shares	Earnings per Ordinary Share	Diluted Earnings per Ordinary Share
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
January 31, 2008	42,768	5,262	5,149	0.20	0.20
October 31, 2007	45,625	6,251	6,138	0.24	0.24
July 31, 2007	43,371	7,834	7,241	0.29	0.29
April 30, 2007	36,709	4,115	4,002	0.16	0.16

^{*} Two month period due to a change in year end effective December 31, 2008.



Management's Discussion and Analysis

December 2008/January 2008

Net earnings for the two months ended December 31, 2008 were \$1.9 million, a \$3.4 million or 64% decrease from earnings of \$5.3 million for the three months ended January 31, 2008. Contributing to this decrease was lower than average temperatures and higher than average rainfall.

Net earnings for the 2008 Transitional Period ended December 31, 2008 were \$12.6 million, a \$6.7 million or 36% decrease from earnings of \$19.3 million for the nine months ended January 31, 2008. This decrease in earnings is due to the base rate reductions, CRS removal and increased maintenance costs of \$0.8 million, partially offset by lower finance charges of \$5.2 million. Also contributing to this decrease were lower than average temperatures and higher rainfall in the 2008 Transitional Period which negatively impacted kWh sales growth.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the two months ended December 31, 2008 were \$1.9 million, or \$0.08 per Class A Ordinary Share, as compared to \$4.3 million, or \$0.17 per Class A Ordinary Share for the three months ended April 30, 2008.

Dividends paid on Class A Ordinary Shares were \$0.495 per share. The Company notes that dividends paid consists of the three distributions of \$0.165 per share that traditionally represented three full quarters of earnings, but due to the change in the reporting period dividends paid are compared to only eight months of earnings in this Report.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the 2008 transitional period were \$11.9 million, or \$0.45 per Class A Ordinary Share, as compared to \$18.5 million, or \$0.73 per Class A Ordinary Share for the nine months ended January 31, 2008.

October 2008/October 2007

Net earnings for the three months ended October 31, 2008 were \$5.4 million, representing a 14% decrease from net earnings of \$6.3 million in the same period last year. The reasons for this decrease are the base rate reductions, CRS removal and increased maintenance costs of \$0.8 million, partially offset by lower finance charges of \$1.2 million and 4% kWh sales growth.

Net earnings for the six months ended October 31, 2008 were \$10.7 million, representing a 24% decrease from net earnings of \$14.0 million in the same period last year. The primary reasons for the difference in earnings for the six months ended October 31 when compared to the same period for the prior year are the removal of the CRS and base rate reductions in January 2008 under the terms of the AIP, and increased 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 October 31, 2008 were \$5.3 million, or \$0.18 per Class A Ordinary Share, as compared to \$6.1 million, or \$0.24 per Class A Ordinary Share for the three months ended October 31, 2007. Earnings on Class A Ordinary Shares for the six months ended October 31, 2008 were \$10.0 million, or \$0.37 per Class A Ordinary Share, as compared to \$13.3 million, or \$0.53 per Class A Ordinary Share for the six months ended October 31, 2007.

July 2008/July 2007

Net earnings for the six months ended July 31, 2008 showed a 32% decrease quarter over quarter from \$7.8 million in fiscal 2008 to \$5.3 million in fiscal 2009. The main reasons for this difference are the removal of the CRS and the base rate reductions. In the first quarter of fiscal 2008 the CRS yielded \$1.3 million in revenues. The CRS, implemented in August 2005, ceased in January 2008 as opposed to the original anticipated date of August 2008. This cessation and the base rate reductions were the result of the licence negotiations. Other contributing factors to the decrease in net earnings were an increase in maintenance expense of \$0.3 million and a \$0.4 million increase in depreciation expense quarter-over-quarter.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the six months ended July 31, 2008 were \$4.7 million, or \$0.190 per Class A Ordinary Share, as compared to \$7.2 million, or \$0.290 per Class A Ordinary Share for the six months ended July 31, 2007.

April 2008/April 2007

Net earnings for the three months ended April 30, 2008 showed a 7% increase quarter over quarter from \$4.1 million in the same period 2007 to \$4.4 million in 2008 due to a reduction in G&A expenses and the impact on fourth guarter 2008 from the movement in deferred fuel costs.

CUC introduced the Consumer-Owned Renewable Energy (CORE) programme following approval from the Electricity Regulatory Authority (ERA). The programme allows small scale renewable energy generators to connect to the CUC's electrical grid with the benefit of reliable back-up service around the clock.

Management's Discussion and Analysis

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the six months ended April 30, 2008 were \$4.3 million, or \$0.17 per Class A Ordinary Share, as compared to \$4.0 million, or \$0.16 per Class A Ordinary Share for the six months ended April 30, 2007.

Disclosure Controls and Procedures

CUC's Disclosure Committee assists with implementing, monitoring and evaluating our disclosure controls and procedures. CUC's Chief Executive Officer, Chief Financial Officer and Disclosure Committee have evaluated the effectiveness of CUC's disclosure controls and procedures as of the end of the period covered by this Report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that CUC's disclosure controls and procedures are effective as of December 31, 2008.

Internal Controls over Financial Reporting ("ICFR")

Management recognises its responsibility for establishing and maintaining adequate internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, and has designed internal controls and procedures to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Canadian generally accepted accounting principles. Management assessed the effectiveness of the Company's ICFR as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment, management believes that CUC maintained effective internal control over financial reporting as of December 31, 2008.

No change in CUC's internal control over financial reporting occurred during the period beginning on November 1, 2008 and ended on December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

Outlook

The Company has submitted a Capital Investment Plan to the ERA outlining \$246 million in capital expenditures between 2009 and 2013 including

approximately \$72 million related to new generation that is expected to be solicited. The submitted plan takes into consideration anticipated reductions in growth in the upcoming periods. Tourism and financial services, along with the construction industry, are the pillars of the Cayman Islands economy and impact CUC's sales growth. Slowing in these sectors is expected given the status of the United States' economy.

CUC believes that with its strong credit ratings, adequate credit facilities, improved capital structure following the 2008 rights offering, and focus on controlling operating expenses through improved efficiencies, the Company will be able to respond to the global economic downturn.

Outstanding Share Data

At February 27, 2009 the Company had issued and outstanding 28,087,313 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 Lawrence

Vice President Finance & Chief Financial Officer

February 27, 2009

Management's Responsibility for Financial Reporting

The accompanying Financial Statements of Caribbean Utilities Company, Ltd. and all information in the 2008 Transitional Period 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 2008 Transitional Period 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 quidelines 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 2008 Transitional Period 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

1. Number 1.

Auditors' Report

We have audited the balance sheet of Caribbean Utilities Company, Ltd. (the "Company") as at December 31, 2008 and the statements of earnings and comprehensive income, retained earnings and cash flows for the period 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 audit.

We conducted our audit 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, 2008 and the results of its operations and cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young

Grand Cayman, Cayman Islands

January 23, 2009

Balance Sheets

(Expressed in thousands of United States dollars)

		As at	As at
	Note	Dec. 31, 2008 \$	April 30, 2008 \$
Assets	Note	¥	Ψ
Current Assets			
Cash and cash equivalents		1,431	1,268
Accounts receivable	4	16,879	18,798
Regulatory assets	5	18,493	22,077
Inventories	6	2,485	8,646
Prepayments		1,914	1,023
		41,202	51,812
Property, plant and equipment	7	330,779	314,743
Other assets	8	2,006	1,694
Total Assets		373,987	368,249
Liabilities and Shareholders' Equity Current Liabilities			
Bank overdraft	9	4,158	3,971
Accounts payable and accrued expenses		21,048	33,138
Regulatory liabilities	5	359	213
Short-term debt	9	8,000	8,000
Current portion of long-term debt	10	14,266	10,528
Consumers' deposits and advances for construction		3,785	3,665
		51,616	59,515
Long-term debt	10	152,377	166,262
Total Liabilities		203,993	225,777
Shareholders' Equity			
Share capital	12	1,922	1,763
Share premium	12	72,092	43,216
Contributed surplus		279	250
Retained earnings		95,701	97,243
Total Shareholders' Equity		169,994	142,472
Total Liabilities and Shareholders' Equity		373,987	368,249

See accompanying Notes to Financial Statements

Approved on behalf of the Board of directors by:

David E. Ritch, OBE, JP

Director

Statements of Earnings and Comprehensive Income

(Expressed in thousands of United States dollars, except Basic and Diluted Earnings per Share)

		Eight months ended Dec. 31, 2008	Twelve months ended April 30, 2008
	Note	\$	\$
Operating Revenues			
Electricity sales		46,406	90,326
Hurricane Ivan cost recovery surcharge	20	-	3,269
Fuel factor		103,942	82,386
Total Operating Revenues		150,348	175,981
Operating Expenses			
Power generation		106,940	102,913
General and administration		6,871	11,582
Consumer service and promotion		1,109	1,802
Transmission and distribution		1,780	3,134
Depreciation and amortisation		12,174	16,669
Maintenance		6,248	8,573
Total Operating Expenses		135,122	144,673
Operating Income		15,226	31,308
Other Income/(Expenses)			
Finance charges	19	(5,153)	(10,564)
Foreign exchange gain	18	1,420	1,572
Other income		1,106	1,444
Total Net Other (Expenses)		(2,627)	(7,548)
Earnings and Comprehensive Income for the Period		12,599	23,760
Preference dividends paid on Class B shares		(705)	(930)
Earnings on Class A Ordinary Shares		11,894	22,830
Weighted average number of Class A Ordinary Shares			
issued and fully paid	14	26,722	25,361
Basic Earnings per Class A Ordinary Share	14	0.45	0.90
Diluted Earnings per Class A Ordinary Share	14	0.45	0.90
Dividends declared per Class A Ordinary Share		0.495	0.660

See accompanying Notes to Financial Statements

Statements of Retained Earnings

(Expressed in thousands of United States dollars)

n	Eight nonths ended Dec.31, 2008 \$	Twelve months ended April 30, 2008 \$
Balance at beginning of period	97,243	91,142
Earnings for the period	12,599	23,760
Dividends	(14,141)	(17,659)
Balance at end of period	95,701	97,243

See accompanying Notes to Financial Statements

Statements of Cash Flows

(Expressed in thousands of United States dollars)

	Eight months ended Dec. 31, 2008 \$	Twelve months ended April 30, 2008 \$
Operating Activities		
Earnings for the period Items not affecting cash:	12,599	23,760
Depreciation and amortisation	12,174	16,669
Stock-based compensation	29	26
Profit on disposal of property,		102
plant and equipment	_ _	192
	24,802	40,647
Net change in non-cash working		
capital balances relating to operations	(5,261)	12,502
Net change in regulatory deferrals	3,730	(21,864)
Cash flow related to operating activities	23,271	31,285
Investing Activities		
Proceeds on sale of property, plant and equipment	8	352
Purchase of property, plant and equipment	(27,994)	(44,617)
Amortisation of deferred licence renewal costs	58	(433)
Cash flow related to investing activities	(27,928)	(44,698)
Financing Activities		
Proceeds from debt financing	16,500	48,000
Repayment of debt	(26,761)	(27,512)
Increase in bank overdraft	187	3,970
Dividends paid	(14,141)	(17,659)
Net proceeds from share issues	29,035	991
Cash flow related to financing activities	4,820	7,790
Increase/(Decrease) in cash	163	(5,623)
Cash and cash equivalents - beginning of period	1,268	6,891
Cash and cash equivalents - end of period	1,431	1,268
Supplemental disclosure of cash flow information:		
Interest paid during the period	11,075	10,564

See accompanying 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 in consolidated operations, resulting in the recognition of regulatory assets and liabilities, which Caribbean Utilities Company, Ltd. ("CUC" or "the Company") considers it is likely 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 (the "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 57% of the outstanding Class A Ordinary Shares of CUC. IPHL no longer holds any interest in CUC. The purchase by Fortis of the additional Class A Ordinary Shares in CUC was made in compliance with the Shareholders Agreement and Standstill Agreement entered into in connection with the increased investment in CUC in January 2003.

The T&D Licence requires the Company to pay duty on all foreign purchases at the rate of 15%, to pay duty on fuel at the rate of \$0.60 per imperial gallon ("IG") and 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 applies only to customer billings with consumption of 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 to April previously in place. The current financial period previously identified as "fiscal year 2009" is eight months in duration, spanning from May 1, 2008 to December 31, 2008. This eight-month period is referred to as the "2008 Transitional Period". The following financial year will begin January 1, 2009 and end December 31, 2009.

Regulation

In December 2007, CUC and Government reached an Agreement in Principle ("AIP") which formed the basis of the licencing documents subsequently signed in April 2008. Under the terms of the Licences the Company operates as a regulated electric utility. The Company's financial statements are prepared in accordance with Canadian GAAP, including selected accounting treatments that differ from those used by entities not subject to rate regulation.

Pursuant to the AIP and effective January 1, 2008, CUC's base rates were restructured to extract all fuel costs and licence fee amounts to be passed through to consumers. A new rate class for large commercial

(Expressed in thousands of United States dollars)

customers and a new fuel and lube factor to provide for full pass through charges for 100% of fuel and lubricating oil were also implemented in January 2008. In addition to the structural changes, the AIP called for an overall reduction in base rates of 3.25%. The Company also agreed to the January 2008 removal of the Hurricane Ivan Cost Recovery Surcharge ("CRS").

The ERA has the overall responsibility of regulating the electricity industry in the Cayman Islands in accordance with the ERA Law as amended in January 2008. The ERAcoversees all licencees, establishes and enforces licence standards, enforces applicable environmental and performance standards, reviews the proposed Rate Cap and Adjustment Mechanism ("RCAM") and sets the rate adjustment factors as appropriate. The ERA also annually reviews and approves CUC's capital investment plan. In conjunction with the establishment of the ERA and the issuance of the new licences, the CUC 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. In addition to the licence fee, a regulatory fee of ½ of 1% is charged on gross revenues then prorated and applies only to customer billings with consumption of over 1,000 kWh per month. The licence and regulatory fees were added to consumers' April 2008 statements.

Following the January 2008 rate reduction, rates will continue to be frozen through May 31, 2009 and will be subject to an annual review and adjustment each June thereafter through the RCAM. A price cap mechanism will be used to adjust the base rates in accordance with a formula that takes into account inflation and CUC's Return on Rate Base ("RORB"). Rate base is the value of capital upon which the Company is permitted an opportunity to earn the RORB. 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 Government began providing a special fuel duty rebate to be applied to the first 1,500 kWh of monthly residential consumption effective January 1, 2008. The rebate is calculated based on CI\$0.20 (\$0.24) per IG of fuel used for generation.

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.

Cash and Cash Equivalents

Cash and cash equivalents comprises 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 (see Note 6).

(Expressed in thousands of United States dollars)

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. Engine spares are classified as generating equipment under PP&E on the balance sheet and are carried at cost less provision for obsolescence. Line inventory that is foreseeable as capitalisable is included in PP&E less provision for obsolescence (see Note 3). Major spare parts and stand by equipment to be used during more than one period may qualify as PP&E when an entity expects to use them during more than one period. 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.

Under the 1986 licence, the Company's policy was to capitalise interest on major construction projects, which was included as a cost in the appropriate PP&E account.

Pursuant to the new licences, effective May 1, 2008, the Company capitalised 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 operating costs. In the absence of regulation, only those overhead costs directly attributable to construction activity would be capitalised under Canadian GAAP.

Additionally, effective May 1, 2008, 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 capitalised under Canadian GAAP.

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

Depreciation is provided on cost of fixed assets, except for freehold land which is not depreciated, on a straight-line basis over the estimated useful lives of the assets as follows:

		Years
Transm	ission and distribution	20 to 50
Genera	tion	20 to 50
Other:	Buildings	20 to 50
	Motor Vehicles	5 to 15
	Equipment and computers	3 to 20

Impairment of Long-Lived Assets

The Company reviews the valuation of utility capital assets. Deferred charges and other assets or changes in circumstances may indicate that an asset's carrying value exceeds the total undiscounted cash flows expected from its use and impairment or eventually disposition may be necessary. An impairment loss, calculated as the difference between the capital asset's carrying value and its fair value, which is determined using present value techniques, is charged to accumulated depreciation.

(Expressed in thousands of United States dollars)

Other Assets

Deferred licence renewal costs, included within other assets, are being amortised over 20 years on a straight-line basis, which commenced with the signing of the new licences in April 2008 (see Note 8).

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 Revenue

Electricity sales are recognised when electricity is rendered (i.e. on a bills-rendered basis, adjusted for unbilled revenues).

Fuel Factor

Pursuant to the terms of the T&D Licence (Note 1), the Company is entitled to recover 100% of fuel costs from consumers. These costs are recovered in the form of a surcharge on consumer billings known as the "Fuel Cost".

Costs incurred pursuant to the Fuel Cost are deferred and offset against the related future revenues recovered from consumers.

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. These incomes are recognised when service is rendered or the goods are delivered.

Consumer Deposits

Upon establishing a new service, the customer is required to make a deposit in accordance with the Company's deposit policy. Deposits earn interest at the prevailing interest rate. For active accounts, the interest is applied to the customer's account as a credit or reduction to the amount due. Deposits are refunded when a final bill for services has been issued and there is a remaining credit balance on the account after the customers' deposit plus any accrued interest has been applied to the final balance.

Segment Information

The Company operates in one business segment comprising 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.

(Expressed in thousands of United States dollars)

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.

Employee Benefit Plans

The Company maintains defined benefit and defined contribution pension plans for its employees. 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 amortised 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 is deferred and amortised over the remaining service period of the employee. The balance of any such actuarial gain (loss) is also deferred. The Company uses quoted market values to value pension assets.

Comprehensive Income, Financial Instruments and Hedges

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

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

The Company has designated its financial instruments as follows:

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

The Company reviewed its contracts for embedded derivatives and determined that while some of the

(Expressed in thousands of United States dollars)

Company's long-term debt contracts have prepayment options that qualify as embedded derivatives to be separately recorded, none have been recorded as they are immaterial to the Company's results of operations and financial position. Under Section 3855, deferred financing costs are no longer recognised as a deferred charge and the Company reclassified \$1.1 million of unamortised deferred financing costs as part of its debt balances. These costs are required to be amortised using the effective interest method versus the straight line method. This change did not have a material impact on the Company's earnings upon adoption of this new standard.

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

Adoption of these standards had no impact in the Company's May 1, 2008 opening retained earnings.

3. Changes in Accounting Policies

2008 Transitional Period Changes

Inventories

Effective May 1, 2008, the Company adopted the new CICA Handbook Section 3031, Inventories, replacing the existing standard, Inventories, Section 3030. The new standard requires inventories to be measured at the lower of cost or net realisable value and disallows the use of a last-in-first-out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the writedown is to be reversed. As at May 1, 2008, inventories of \$5.6 million (net of provision for obsolescence) were reclassified to PP&E from inventory on the balance sheet as they are held for the development, construction, maintenance and improvements of other PP&E.

Capital Disclosures

Effective May 1, 2008, the Company adopted the new CICA Handbook Section 1535 Capital Disclosures. It requires CUC to include additional information in the notes to the financial statements about its capital and the manner in which it is managed. The additional disclosure includes quantitative and qualitative information regarding objectives, policies and processes for managing capital. This new standard did not have any impact on the Company's financial results for the transitional period ended December 31, 2008. The additional required disclosure is provided in Note 11 to these financial statements.

Disclosure and Presentation of Financial Instruments

Sections 3861 and 3862 of the CICA Handbook set out new accounting recommendations for disclosure and presentation of financial instruments, which became effective for the Company on May 1, 2008. The new recommendations require disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Company is exposed. These recommendations did not have any impact on the Company's financial results for the transitional period ended December 31, 2008. The additional required disclosure is in Note 15 to these financial statements.

Future Accounting Policy Changes

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises. In April 2008, the AcSB issued an Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on

(Expressed in thousands of United States dollars)

January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The AcSB proposes that CICA Handbook Section - Accounting Changes, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to this Exposure Draft. The Company is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. CUC does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required, as well as system changes that may be necessary to gather and process the information.

Rate-Regulated Operations

In March 2007, the AcSB issued an Exposure Draft on rate-regulated operations that proposed: (i) the temporary exemption in Section 1100, Generally Accepted Accounting Principles, of the CICA Handbook providing relief to entities subject to rate regulation from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation be removed; (ii) the explicit guidance for rate-regulated operations provided in Section 1600, Consolidated Financial Statements, Section 3061, Property, Plant and Equipment, and Section 3475, Disposal of Long-Lived Assets and Discontinued Operations, be removed; and (iii) Accounting Guideline 19, Disclosures by Entities Subject to Rate Regulation ("AcG-19"), be retained as is.

In August 2007, the AcSB issued a Decision Summary on the Exposure Draft that supported the removal of the temporary exemption in Section 1100, Generally Accepted Accounting Principles to offset regulatory assets and liabilities by entities subject to rate regulation. The change will apply prospectively for fiscal years beginning on or after January 1, 2009. The AcSB also decided that the current guidance for rate-regulated operations pertaining to PP&E, disposal of long-lived assets and discontinued operations, and consolidated financial statements be maintained, and that the existing AcG-19 will not be withdrawn from the CICA Handbook but that the guidance will be updated as a result of the other changes. The AcSB also decided that the final Background Information and Basis for Conclusions associated with its rate regulation project would not express any views of the AcSB regarding the status of U.S. Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, as "another source of GAAP" within the Canadian GAAP hierarchy.

Effective January 1, 2009, with the removal of the temporary exemption in 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 1600, 3061, 3465 and 3475. All assets and liabilities arising from rate regulation described in Note 5 do not have specific quidance 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. These assets and liabilities qualify for recognition as assets and liabilities under Section 1000. Therefore, there would be no effect on the Company's financial statements if it had adopted the removal of the temporary exemption in Section 1100 for the year ended December 31, 2008. CUC is continuing to assess and monitor any additional implications on its financial reporting related to accounting for rate regulated operations.

(Expressed in thousands of United States dollars)

Goodwill and Intangible Assets

Effective January 1, 2009, the Company will adopt the new CICA Handbook Section 3064 - Goodwill and Intangible Assets. This Section, which replaces 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 estimated effect on the Company's financial statements, if it had adopted amended Section 3064, as at December 31, 2008, would have been an increase in intangible assets of \$0.2 million, a reduction in utility capital assets of \$0.2 million for the reclassification of the net book value of computer software costs. The Company is continuing to assess any additional financial reporting impact of adopting this standard.

4. Accounts Receivable

	Dec. 31, 2008	April 30, 2008
Billings to consumers	12,676	17,245
Unbilled revenues	2,105	730
Other receivables	1,988	788
Employee Share Purchase Plan	110	35
Total accounts receivable	16,879	18,798

The Company's billings to consumers decreased due to lower fuel costs during the 2008 Transitional Period ended December 31, 2008.

Other Receivables

Other receivables are comprised mainly of services and goods provided outside of the Company's normal course of business. This includes an amount due from Provo Power, a member of the Fortis Group of Companies, of \$0.1 million (see Note 23).

Employee Share Purchase Plan

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

5. Regulatory Assets and Liabilities

The 2008 T&D Licence established a fuel tracker mechanism to ensure that 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 the consumer or revenue collected for which the per kWh rate needs to be decreased. 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.

(Expressed in thousands of United States dollars)

In addition to fuel, a tracker account for regulatory fees is required per the 2008 licence agreements. The receivable or payable balance of this account is recorded as a regulatory asset or liability.

The following table shows the position of regulatory assets and liabilities:

Asset/Liability	Description	Dec. 31, 2008	April 30, 2008
Regulatory Assets	Fuel Tracker Account (a) Government & Regulatory Tracker Account (b)	18,493	22,077
Regulatory Liabilities		(359)	(213)

- a) Fuel Tracker Account This account is actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from the consumer when billed and the amount by which the revenues received exceed the costs incurred or the opposite. For both scenarios, the per kWh rate is adjusted quarterly in order to reduce the payable or receivable position. 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 transitional period ended December 31, 2008 would have been \$18.5 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 applies only to customer billings with consumption of 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. In the absence of rate regulation and governmental controls, there would be no regulatory liability amount on the Balance Sheet as all funds received would be applicable to billed amounts. As such, liabilities would be reduced by \$0.4 million and earnings would have been \$0.4 million higher.

6. Inventories

In June 2007, the Company renewed its Primary Fuel Supply Contract with Esso Standard Oil S.A. Limited ("Esso"). As a condition of the contract, the point of delivery for fuel billing purposes moved from the Company's North Sound Power Plant Compound to the Esso terminal. CUC 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 approximate remaining quantities per the contract on an annual basis are, in millions of IGs: 2009 - 27.2; 2010 - 9.3. The cost of fuel per IG varies as the market price fluctuates. All other points of significance are in-line with previous contracts with this fuel supplier.

The value of CUC's closing stock of fuel at December 31, 2008 was \$1.9 million (April 30, 2008: \$2.3 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Power Plant.

(Expressed in thousands of United States dollars)

	As at Dec. 31, 2008	As at April 30, 2008
Inventory - Line spares	118	6,100
Inventory - Fuel	1,916	2,336
Inventory - Other	451	210
Total	2,485	8,646

In accordance with CICA Handbook Section 3031, Inventories, as at May 1, 2008, of \$5.6 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.

The inventory amounts expensed for the eight-month period ended December 31, 2008 totalled \$96.6 million, which includes \$96.4 million in fuel and lube costs and \$0.1 million in line inventory and \$0.1 million of other inventory.

7. Property, Plant and Equipment

As at December 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Transmission and distribution	211,392	54,806	156,586
Generation	212,559	71,241	141,318
Other: Land Buildings Equipment, motor vehicles and computers	11,399 18,520 22,114	7,668 11,490	11,399 10,852 10,624
Total Other	52,033	19,158	32,875
Property, plant and equipment	475,984	145,205	330,779
As at April 30, 2008	Cost	Accumulated Depreciation	Net Book Value
Transmission and distribution	195,971	49,856	146,115
Generation	201,797	65,912	135,885
Other: Land Buildings Equipment, motor vehicles and computers	10,859 18,520 20,896	- 6,941 10,591	10,859 11,579 10,305
Total Other	50,275	17,532	32,743
Property, plant and equipment	448,043	133,300	314,743

(Expressed in thousands of United States dollars)

Included in PP&E are a number of capital projects in progress with a total cost to date of \$31.2 million (April 30, 2008: \$16.2 million), \$5.6 million of which relates to inventory reclassified in accordance with CICA Section 3031. These projects primarily relate to various improvements to the Distribution System and the 2009 Generation Expansion.

Also included in Generation and T&D is freehold land with a cost of \$4.7 million (April 30, 2008: \$4.7 million).

In addition, engine spares with a net book value of \$13.5 million (April 30, 2008: \$12.5 million) are included in Generation.

During the transitional period ended December 31, 2008, the Company capitalised interest of \$0 (April 30, 2008: \$0.8 million). The Company's policy was to capitalise interest on all significant construction projects, which is included as a cost in the appropriate capital assets account until the asset is available for service. This methodology was ceased in April 2008 as under the new T&D Licence 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 the transitional period ended 2008 will be 10% and will be adjusted annually. The Company capitalised an amount of \$2.6 million for the 2008 Transitional Period ended December 31, 2008 under the provision for AFUDC. In the absence of rate regulation net income would have been \$2.1 million lower.

The Company capitalised an amount of \$0.6 million for the transitional period ended December 31, 2008 under the provision for General expenses capitalised ("GEC") (refer to Note 2 of these Financial Statements for further detail regarding GEC). In the absence of rate regulation, net income would have been \$0.6 million lower.

8. Other Assets

	As at Dec. 31, 2008	As at April 30, 2008
Deferred licence renewal costs Sundry assets	1,784 222	1,477 217
Total	2,006	1,694

Deferred licence renewal costs relate to the extensive negotiations with the Government for new licences for the Company. Amortisation of deferred licence renewal costs commenced upon conclusion of licence negotiations in April 2008.

(Expressed in thousands of United States dollars)

9. Short-Term Financing

The Royal Bank of Canada ("RBC") credit facility agreement provides for \$33.2 million and the total available was \$19.8 million at December 31, 2008.

Credit Facilities

	Total Credit Financing Facilities Dec. 31, 2008	Total Utilised Dec. 31, 2008	Total Available Dec. 31, 2008
Corporate Credit Card Line	300	300	-
Letters of Credit - 1% per annum	861	861	-
Operating, Revolving Line of Credit			
- prime + ½%	7,500	4,158	3,342
Catastrophe Stand by Loan	7,500	-	7,500
Demand Loan Facility - Interim Funding			
of Capital Expenditures - libor + 11/2%	17,000	8,000	9,000
Total	33,161	13,319	19,842

10. Long-Term Debt

	As at	As at
	Dec. 31, 2008	April 30, 2008
3.00% European Investment Bank #3 due 2009	266	528
8.47% Senior Unsecured Loan Notes due 2010	3,000	4,500
6.47% Senior Unsecured Loan Notes due 2013	12,500	15,000
7.64% Senior Unsecured Loan Notes due 2014	18,000	21,000
6.67% Senior Unsecured Loan Notes due 2016	24,000	27,000
5.09% Senior Unsecured Loan Notes due 2018	40,000	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
	167,766	178,028
Less: Current portion of long-term debt	(14,266)	(10,528)
Less: Deferred debt issue costs	(1,123)	(1,238)
	152,377	166,262
		

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

Year	\$
2009	14,266
2010	14,000
2011	15,500
2012	15,500
2013	19,500
2014 and later	89.000

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

(Expressed in thousands of United States dollars)

11. Capital Management

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

The Company requires ongoing access to capital as its business is capital intensive. Capital investment is required to ensure continued and enhanced performance, reliability and safety of its electricity systems and to meet customer growth.

The Company's objectives when managing capital are to acquire and maintain the assets necessary to provide electricity to the growing Grand Cayman community efficiently and as needed with new developments. The Company also aims to manage capital in order to continue providing returns for shareholders and benefits for other stakeholders.

The Company sets the amount of capital in proportion to risk. Debt to capital equity ratio is managed through various methodologies such as the recent rights offering discussed in more detail in Note 23. The capital managed by the Company is composed of debt (short-term debt, long term debt and bank indebtedness) and equity (including: capital stock, share premium, subscriptions to be issued, contributed surplus and retained earnings).

CUC endeavours to maintain a capital structure consistent with the Company's current investment grade credit ratings, thereby ensuring continued access to capital at a reasonable cost.

The Company's capital structure is shown below:

	Dec. 31, 2008	%	April 30, 2008	%
Total debt Shareholder's equity	174,643 169,994	51 49	184,790 142,472	56 44
Total	344,637	100	327,262	100

The change in the Company's capital structure between April 2008 and December 2008 was mainly driven by an increase in equity resulting from the rights offering.

12. Capital Stock

Authorised:

- a) 60,000,000 (April 30, 2008: 60,000,000) Class A Ordinary Shares of CI\$0.05 each
- b) 250,000 (April 30, 2008: 250,000) 9% Cumulative, Participating Class B Preference Shares of \$1.00 each (non voting)
- c) 1 Cumulative, Participating, Class D Preference Share of CI\$0.56 (non voting)

(Expressed in thousands of United States dollars)

Class A Ordinary Shares were issued during the period for cash as follows (shares below fully stated):

	Transitional Period ended Dec. 31, 2008	Transitional Preriod ended Dec. 31, 2008	Year ended April 30, 2008	Year ended April 30, 2008
	Number of	Amount	Number of	Amount
	Shares	\$	Shares	\$
Class A Ordinary shares issued and				
outstanding, beginning of period	25,414,003	1,513	25,331,438	1,508
Customer Share Purchase and Dividend	112 217	7	70.224	4
Reinvestment Plans Employee Share Purchase, Employee Long	112,317	7	70,334	4
Service Bonus Plans and Employee				
Stock Options	16,475	1	12,231	1
Class A Ordinary Shares issued through	0.544.540	454		
Rights Offering	2,544,518	151	-	-
Class A Ordinary Shares issued and				
outstanding, end of period	28,087,313	1,672	25,414,003	1,513
9% Cumulative, Participating Class B	250,000	250	250,000	250
Total		1,922		1,763

Share proceeds totalled \$29.0 million, of which \$0.1 million was recorded as an increase to share capital and \$28.9 million as an increase to share premium.

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 10 years and will become exercisable on a cumulative basis at the end of each year following the date of grant. The maximum number of Class A Ordinary Shares under option shall be fixed and approved by the shareholders of the Company from time to time and is currently set at 1,216,919. Options are forfeited if they are not exercised prior to their respective expiry date or upon termination of employment prior to the completion of the vesting period.

(Expressed in thousands of United States dollars)

	Dec. 31, 2008 Number of options	2008 Weighted average exercise price per share	April 30, 2008 Number of options	2008 Weighted average exercise price per share
Outstanding at beginning of period	779,603	12.19	619,119	12.18
Granted	-	-	161,700	12.22
Exercised	-	-	(1,216)	11.46
Forfeited	(9,000)	(13.09)	-	-
Outstanding at end of period	770,603	12.19	779,603	12.19

The position with respect to outstanding unexercised options as at December 31, 2008 was as follows:

Date of Grant	Number of Ordinary Shares under Option	Exercise Price \$	Expiry Date
July 18, 2001 September 22, 2003 April 11, 2008 Outstanding at end of period and Weighted Average	419,803 193,100 157,700 770,603	11.46 13.78 12.22	July 17, 2011 September 22, 2013 April 11, 2018

On April 11, 2008 161,700 stock options were granted under the Executive Stock Option Plan at an exercise price of \$12.22. 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 April 11, 2018. The fair value of each option granted was \$0.51 per option. The fair value was calculated on the date of the grant using the Black-Scholes fair value option pricing model and the following assumptions:

Dividend Yield (%):	5.51
Expected Volatility (%):	11.60
Risk-Free Interest Rate (%):	3.20
Expected Life (years) (%):	7.00

The Company has a policy of recording compensation expense upon the issuance of stock options. Using the fair value method, the compensation expense is amortised over the four-year vesting period of the options. Upon exercise, the proceeds of the option are credited to capital stock at 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. Under the fair value method, the compensation expense was \$0.03 million for the transitional period ended December 31, 2008 (April 30, 2008: \$0.02 million), with an offsetting credit to 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 26,721,894 for the Transitional Period ended December 31, 2008 and 25,361,471 for the year ended April 30, 2008. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method. The weighted average number of Class A Ordinary Shares used for determining diluted earnings per share were 26,721,894 and 25,383,764 for the Transitional Period ended December 31, 2008 and for the year ended April 30, 2008 respectively.

	Earnings	Weighted	Earnings	Earnings	Weighted	Earnings
	Dec. 31, 2008	Average	per	April 30, 2008	Average	per
		Shares	Common		Shares	Common
			Shares			Shares
		Dec. 31, 2008	Dec. 31, 2008		April 30, 2008	April 30, 2008
	\$	\$		\$	\$	
Net earnings applicable to						
common shares	11,894			22,830		
Weighted-average						
share outstanding		26,722			25,361	
Basic earnings per common share			0.45			0.90
Effect of potential			0.15			0.70
dilutive securities:						
stock options		-	-	-	22	
diluted earnings						
per Common Shar	e 11,894	26,722	0.45	22,830	25,383	0.90

15. Financial Instruments

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

(Expressed in thousands of United States dollars)

	Carrying Value Dec. 31, 2008	Estimated Fair Value Dec. 31, 2008	Carrying Value April 30, 2008	Estimated Fair Value April 30, 2008
Held for trading				
Cash and cash equivalents	1,431	1,431	1,268	1,268
Loans and receivables				
Trade and other accounts receivable	16,879	16,879	18,798	18,798
Other receivables due from customers	2,006	2,006	1,694	1,694
Other financial liabilities				
Short-term borrowings	8,000	8,000	8,000	8,000
Trade and other accounts payable	21,048	21,048	33,138	33,138
Customer deposits	3,785	3,785	3,665	3,665
Long term debt, including				
current portion	167,766	158,679	178,028	180,260

Carrying value of long term debt includes deferred debt

Carrying Values

Cash is carried at fair value. The carrying value of long-term debt, including current portion, is measured at amortised cost using the effective interest method and is net of unamortised debt issue costs. The carrying value of the remaining financial instruments is measured at amortised cost.

Fair Values

The fair value of long-term debt, including current portion, is calculated by discounting the future cash flows of each debt instrument at the estimated yield to maturity for the same or similar debt instruments at the balance sheet date. The fair value of long term debt as at December 31, 2008 totalled \$158.7 million (April 30, 2008: \$180.3 million). The fair value of the Company's remaining financial instruments approximates their carrying value, reflecting either their nature or short-term maturity.

Credit Risk

There is risk that CUC may not be able to collect all of its accounts receivable. This does not represent a significant concentration of risk as amounts are owned by a large number of customers on normal credit terms. 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)

Receivable	Dec. 31, 2008
Current	12,327
Past due 31 - 60 days	2,704
Past due 61 - 90 days	876
Past due over 90 days	1,188
Total Accounts Receivables	17,095
Less: Allowance for doubtful accounts	(216)
Less: Consumer Deposits	(3,785)
Net Exposure	13,094

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 that rates be set to enable the Company to achieve and maintain a sound credit rating in the financial markets of the world.

Market Risk

Market-driven changes in the performance of the Company's defined benefit pension plan assets can cause fluctuations in pension costs. Additionally, actual experienced returns on pension plan assets, on an annual basis, can cause fluctuations in pension expense as these actuarial gains and losses are amortised to income.

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.

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. \$4.9 million has been paid to date towards construction of the new MAN 16 MW unit, which is included in PP&E. The remaining amount to be paid as at December 31, 2008 is \$19.4 million.

17. Insurance Coverage

The Company renewed its insurance policy for fiscal 2009 as at July 1, 2008 under similar 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 North Sound Power Plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single

(Expressed in thousands of United States dollars)

event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$0.5 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1 million and maximum deductible of \$4 million for all interests combined.

In addition to this coverage, the Company has also purchased an excess layer of an additional \$100 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 PP&E are certain uninsured T&D assets with an estimated replacement cost of \$182 million. This value excludes substations which are covered in the main property policies.

18. Foreign Exchange

The closing rate of exchange on December 31, 2008 as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was Cdn\$1.2180 per US\$1.00. The official exchange rate for the conversion of Cayman Islands dollars into US dollars as determined by the Cayman Islands Monetary Authority is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of December 31, 2008 for conversion of Cayman Islands dollars into Canadian dollars was \$1.4616 per CI\$1.00.

19. Finance Charges

The composition of finance charges was as follows:

	As at Dec. 31, 2008	As at April 30, 2008
Interest costs - long-term debt Interest costs - short-term debt Capitalised interest * AFUDC	7,571 177 - (2,595)	10,857 513 (806)
Total	5,153	10,564

^{*} Refer to PP&E (Note 7) with regards to Capitalised Interest and AFUDC methodology.

20. Cost Recovery Surcharge (CRS)

On August 1, 2005, the Company implemented a CRS of \$0.0089 per kWh to recover approximately \$13.4 million of direct Hurricane Ivan losses. CRS revenues for the 2008 Transitional Period ended December 31, 2008 were nil (April 30, 2008: \$3.2 million). As at December 31, 2007, a total of \$10.8 million had been collected since the implementation date, leaving \$2.6 million to be recovered. In accordance with the AIP (Note 1), effective January 1, 2008, the CRS was removed from consumer bills and the Company forfeited the additional \$2.6 million of CRS Revenues.

(Expressed in thousands of United States dollars)

21. 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 transitional period ended December 31, 2008 amounted to \$0.25 million (April 30, 2008: \$0.81 million). The Pension Plan is administered by an independent Trustee.

During 2003, the Company established a defined benefit pension plan for a Director of the Company. In May 2005, the Company's Board of Directors approved the establishment of a defined benefit pension plan for the retired President and Chief Executive Officer. In April 2007, the Company established an independent trust and the defined benefit plans were amalgamated at that time. The pension cost of the defined benefit plan is actuarially determined using the projected benefits method. An independent actuary performs a valuation of the obligations under the defined benefit pension plan at least every three years. The latest actuarial valuation of the pension plan for funding purposes was at December 31, 2008. An accrued benefit liability of \$0.05 million as at December 31, 2008 (April 30, 2008: \$0.09 million) is included within Accounts Payable and Accrued Expenses in the Balance Sheets.

(Expressed in thousands of United States dollars)

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method.

	Transitional	
	Period	Fiscal
	2008	2008
Accrued Benefit Obligation		
Balance beginning of period	5,406	5,163
Interest cost	191	271
Actuarial (gains)/losses	(472)	(28)
Benefit payments	(65)	-
Balance end of period	5,060	5,406
Plan Assets		
Fair value, beginning of period	3,060	2,476
Actual return on plan assets	(373)	(36)
Employer contributions to plan	281	648
Benefit payments	(65)	(28)
	2,903	3,060
Funded Status - deficit	(2,157)	(2,346)
Unamortised past service costs	1,325	1,491
Unamortised net actuarial loss	778	767
Accrued Benefit Liability	54	88
The Company's defined benefit pension plan asset allocation was as	follows:	
Equities	54%	62%
Money Market Funds	42%	24%
Fixed Income	1%	6%
Cash	3%	8%
	100%	100%
During the Transitional Period ended December 31, 2008, \$0.2 millio (April 30, 2008: \$0.5 million) was recorded as compensation expense which comprises the following:	n	
Interest cost	191	271
Expected return on plan assets	(109)	(144)
Amortisation of past service costs	166	359
Amortisation of actuarial losses	-	26
6: 15: 1	248	512
Significant assumptions used:		
Discount rate during year (%)	6.50	5.25
Discount rate at year end (%)	6.00	5.25
Rate of compensation increase (%)	3.00	3.00
Expected long-term rate of return on plan assets (%)	3.00	5.00
Average remaining service period (years)	5.0	6.0

(Expressed in thousands of United States dollars)

22. Taxation

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

23. Transactions with Related Parties

In July and August 2008, Fortis Energy (Bermuda) Ltd., the Company's majority shareholder, provided funds for the purchase of shares related to the rights offering filed in June 2008. Under the rights offering, each shareholder received one right per Class A Ordinary Share held as at July 14, 2008. A total of 10 rights enabled shareholders to acquire one Class A Ordinary Share of the Company at a subscription price of \$11.09 per share. Funds received from Fortis Inc. amounted to \$23.9 million and funds received from other subscribers amounted to \$4.3 million, bringing the total amount of funds received at December 31 to \$28.2 million. The funds were applied to share capital and share premium. The basic subscription by Fortis Energy (Bermuda) Ltd. totalled 2,156,148 shares. Fortis Energy (Bermuda) Ltd. now holds 15,989,328 shares, approximately 57% of the outstanding Class A Ordinary Shares.

On September 7, 2008, Hurricane lke impacted the Turks and Caicos Islands as a Category 4 storm. The damage from the storm was substantial. A contingent of Company employees assisted with the restoration efforts, including "manpower contributions" to Provo Power, a member of the Fortis group of companies. These financial statements include a receivable of \$0.1 million for the cost of the Company's labour in the reconstruction of T&D assets.

Miscellaneous receivables from Fortis Inc. totalling \$0.05 million, remains outstanding at December 31, 2008.

24. Subsequent Events

On February 3, 2009, 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 14, 2009 to shareholders of record February 21, 2009.

25. Comparative figures

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

Ten-Year Summary

Except where noted, expressed in United States dollars, thousands

	2008 TP	2008
Operating revenues	150,348	175,981
Other revenues and adjustments	2,526	3,016
Total revenues	152,874	178,997
Operating expenses	135,122	144,673
Income before interest	17,752	34,324
Finance charges	5,153	10,564
Earnings for the year	12,599	23,760
Capitalisation:		
Class A Ordinary Shares (nominal value)	1,672	1,513
9% Cumulative Participating Class B Preference Shares (nominal value)	250	250
Share Premium	72,092	43,216
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	174,643	184,790
Total capitalisation	240,657	229,769
Capital expenditures	27,994	44,617
Earnings per Class A Ordinary Share (\$/Share)	0.45	0.90
Dividends per Class A Ordinary Share (\$/Share)	0.495	0.66
Book value per Class A Ordinary Share (\$/Share)	6.05	5.41
Statistical Record:		
Net kWh generation (millions of kWh)	400.74	578.40
Net kWh sales (millions of kWh)	376.60	539.56
Peak load (MW) gross	93.77	92.71
Plant capacity (MW)	136.60	136.60
Total customers (actual number)	24,518	24,041

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

2007	2006	2005	2004	2003	2002	2001	2000
158,859	135,677	92,871	106,643	96,921	90,124	90,089	76,469
2,851	8,721	10,041	2,276	2,560	2,420	2,133	2,705
161,711	144,398	102,912	108,919	99,481	92,544	92,222	79,174
133,812	112,328	90,190	81,223	72,970	67,621	69,179	58,104
27,898	32,070	12,722	27,696	26,511	24,923	23,043	21,070
9,444	9,212	8,498	7,709	6,321	5,648	3,747	3,079
18,454	22,858	4,224	19,987	20,190	19,275	19,306	17,991
1,508	1,505	1,490	1,480	1,463	1,440	1,428	1,412
250	250	250	250	250	250	250	250
42,230	41,656	39,022	37,328	51,341	63,411	76,799	88,806
-	-	-	-	6,008	12,015	12,015	12,015
-	-	-	-	-	-	-	-
165,540	156,038	141,521	138,395	120,704	102,966	85,732	76,442
209,528	199,449	182,283	177,453	179,766	180,082	176,224	178,925
35,586	33,940	39,788	20,041	27,732	29,095	36,655	43,642
0.70	0.87	0.13	0.77	0.80	0.77	0.78	0.73
0.66	0.66	0.33	0.66	0.64	0.61	0.56	0.47
5.15	5.09	4.82	4.98	4.69	4.44	4.23	3.97
546.07	485.52	393.51	485.63	463.00	448.10	424.71	398.09
510.64	456.04	375.74	450.27	429.28	414.58	393.28	369.42
86.83	79.04	85.03	79.06	77.06	75.99	70.18	65.76
123.50	114.63	114.63	127.40	115.10	115.10	115.10	94.92
22,768	21,115	19,011	21,127	20,269	19,198	19,198	18,463

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. St. John's, Newfoundland Canada

Director Emeritus:

Peter N. Thomson

Retired Executive **Bahamas**

Eddinton M. Powell, IP

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. Calgary, Alberta Canada

Peter A. Thomson

Retired Executive Caribbean Utilities Company, Ltd. **Grand Cayman**

^{*} Member Audit Committee (Chairman: J. Bryan Bothwell)

⁺ Member Nominating and Corporate Governance Committee (Chairman: David E. Ritch)

Officers



David C. Watler *Vice President Production*

J.F. Richard Hew President & Chief Executive Officer

Letitia T. Lawrence Vice President Finance & Chief Financial Officer

Douglas H. Murray Corporate Secretary

Andrew E. Small
Vice President
Transmission & Distribution

Shareholder and Corporate Information

Shareholders

Registered shareholders as of December 31, 2008 were as follows:

Class of SharesShareholdersShares HeldClass A Ordinary Shares2,60528,087,3139% Class B Preference Shares109250,000

2,364 Class A Ordinary registered shareholders holding approximately 11% 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., holds 15,989,328 Class A Ordinary Shares, or 56.9% of the outstanding shares as of December 31, 2008.

Annual General Meeting

Shareholders are invited to attend the Annual General Meeting of the Company to be held Tuesday, May 12, 2009 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 AnswerlineTM: (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 Telephone: (345) 949-5200 Fax: (345) 949-4621 Website: www.cuc-cayman.com E-mail: investor@cuc.ky

Credits

Photography : Neil Murray

Caribbean Utilities Company, Ltd.

Miguel Escalante The Photo Centre

Dart Realty (Cayman) Ltd.

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former General Manager.

Other data taken from previous Annual Reports

and Company newsletters

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