

//

We were in sight of two very small and low islands, full of tortoises, as was all the sea about, insomuch as they looked like little rocks.

//

*Columbus' Ship's Log
May 10, 1503*

On sighting the Cayman Islands, which Columbus duly named "Las Tortugas", exactly 463 years to the day prior to Caribbean Utilities' establishment



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Caribbean Utilities Company, Ltd.
2006 Annual Report

“Conserving protected marine resources”

Cayman Turtle Farm

One of the premier tourism attractions in the Cayman Islands. It is a closed-cycle farming operation that breeds and raises its own turtle stock for research, release programmes and local consumption (turtle is a favourite Caymanian dish).



General Data

Cover and Report Feature

Turtles and tortling have played an important part in the history of the Cayman Islands and the Caribbean as a whole. In the language of the Taíno Indians, a subgroup of the Arawak Indians, who inhabited the Greater Antilles (Cuba, Jamaica, Hispaniola and Puerto Rico) at the time when Columbus arrived in the New World, there are two words for turtle: "caguama" (big sea turtle) and "carey" (green sea turtle). On sighting the Cayman Islands during his fourth voyage in May 1503, Columbus named his discovery "Las Tortugas" because of the abundance of turtles that surrounded the islands. In May 1958, the Royal Warrant assigning "Armorial Ensigns for the Cayman Islands" (the Coat of Arms) was approved by Her Majesty the Queen, and included in the Coat of Arms is a green turtle that represents Cayman's seafaring history.

Forty years ago in May 1966, CUC was established and later adopted the turtle as its mascot and logo. In 2005, CUC was the first company to sponsor a turtle through the Cayman Turtle Farm/Boatswain's Beach Adopt-a-Turtle programme. Funds raised through this project go directly to sea turtle research, education and conservation. Our turtle aptly named "Sparky", a 575-pound Green Sea Turtle, has been with the Cayman Turtle Farm since the 1960's and is one of the largest and oldest breeding females currently housed at the Farm. "Sparky" and her relatives featured throughout this Report are indeed very photogenic.

Contents

Highlights	1
To Our Shareholders	2
The People Powering Cayman's Success	7
Management's Discussion and Analysis	10
Taking Corporate Responsibility Seriously	24
Where Your Dollar Went	28
Management's Responsibility for Financial Reporting and Auditors' Report to the Shareholders	29
Balance Sheets	30
Statements of Earnings and Retained Earnings	31
Statements of Changes in Shareholders' Equity	32
Statements of Cash Flow	33
Summary of Accounting Policies	34
Notes to Financial Statements	36
Ten-Year Summary	46
Directors of the Company	48
Officers of the Company	49
Shareholder and Corporate Information	50

Credits

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Neil Murray, Corporate Communications Department

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About the Islands

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 52,000, are comprised of three islands: Grand Cayman, Cayman Brac and Little Cayman. Located about 150 miles south of Cuba, 460 miles south of Miami and 167 miles northwest of Jamaica, the largest island is Grand Cayman with an area of 76 square miles. A Governor, presently His Excellency Mr. Stuart Jack, is appointed by Her Majesty the Queen. A democratic society, the Cayman Islands have a Legislative Assembly comprised of representatives elected from each of Grand Cayman's five districts as well as two representatives from the Sister Islands of Cayman Brac and Little Cayman.

Location



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 available capacity of 106.83 megaWatts (MW), and a new record peak load of 85.03 MW was experienced in September 2004. Our 191 employees are committed to providing a safe and reliable supply of electricity to over 21,000 customers. CUC was directly impacted on September 11 and 12, 2004 by Hurricane Ivan, a category-four storm that caused widespread destruction across Grand Cayman and the loss of approximately 20% of the Company's transmission and distribution system. Despite facing major logistical challenges, we successfully completed the restoration of service to all reconnectable customers on Grand Cayman on November 30, 2004, which was within the 90-day period we projected following the hurricane. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's rapid development over the past 40 years. Today we are considered one of the most reliable and efficient power companies in the Caribbean.



Green Sea Turtles

The Company's sponsored turtle Sparky, the largest and possibly oldest breeding female at the Farm, has laid over 17,866 eggs in 23 out of 29 seasons (from 1973 to 2001).



Chelonia mydas

Highlights

Financial Results in Brief

	2006 US\$	2005 US\$	% Change
Operating revenue	135,676,977	92,871,026	46%
Electricity sales	85,686,300	68,892,949	24%
Fuel factor	46,955,184	23,978,077	96%
Hurricane Ivan cost recovery surcharge	3,035,493	-	N/A
Business interruption insurance	6,078,760	8,148,086	-25%
Total operating expenses	112,328,485	90,189,894	25%
Interest expense and preference dividends	9,212,208	8,498,195	8%
Earnings for the year	22,857,662	4,224,302	441%
Total assets	312,993,621	290,158,848	8%
Total shareholders' equity	133,719,890	125,724,438	6%
Cash from operations	34,983,008	25,738,315	36%
Earnings per Class A Ordinary Share	0.87	0.13	569%
Dividends per Class A Ordinary Share (paid and declared)	0.660	0.330	100%
Book value per Class A Ordinary Share	5.09	4.82	6%
Class A Ordinary Shares			
Market price: High	12.27	13.08	-6%
Low	10.50	9.75	8%
Year-end	11.90	11.00	8%

Performance

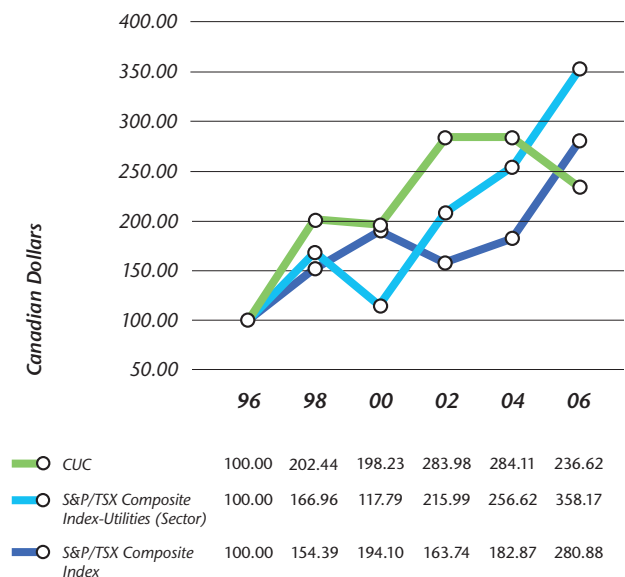
Operating revenues increased by 46% and earnings increased by 441%. The increased revenues and earnings are directly related to the recovery from Hurricane Ivan ("the hurricane"), which passed Grand Cayman in September 2004. Dividends paid and declared on Class A Ordinary Shares increased by 100% from US\$0.330 to US\$0.660 per share. The Board of Directors did not declare a Class A Ordinary Share dividend for second quarter 2005 due to the hurricane. Quarterly Class A dividend payments resumed in third quarter 2005. The Class A Ordinary Shares (CUP.U) traded on the Toronto Stock Exchange at a high of US\$12.27 per share in fiscal 2006.

Rate of Exchange

The closing rate of exchange as of April 30, 2006 as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was Cdn.\$1.1180 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 April 30, 2006 for the conversion of Cayman Islands dollars into Canadian dollars was Cdn.\$1.3416 per CI\$1.00. All dollar amounts in this Annual Report are stated in United States dollars unless otherwise indicated.

Share Performance

Comparison of 10-year cumulative total returns between Cdn.\$100.00 invested in CUC Class A Ordinary Shares and the S&P/TSX Composite Index-Utilities and S&P/TSX Composite Index.



Green Sea Turtles

The Greens derive their names from the body fat, which is dark green in colour, probably due to their sea grass diet.



Chelonia mydas

To Our Shareholders

Whereas 2005 was considered a restoration year, 2006 was indeed a challenging recovery year, both for CUC and customers. We are pleased to report, however, that the reconstruction and replacement of CUC's damaged generation facilities had been substantially completed and the total number of active customers fully recovered to a year-end level of 21,115 compared to 21,127 at year-end 2004. Monthly energy sales are now exceeding those of the same period prior to Hurricane Ivan ("the hurricane") as the economy has staged a full recovery.

CUC achieved earnings in 2006 of \$22.9 million, or \$0.87 per Class A Ordinary Share, compared to \$4.2 million, or \$0.13 per share, in 2005. These earnings were buoyed by the strong sales recovery and the business interruption ("BI") insurance proceeds. Earnings for the year were

negatively affected by costs related to the leasing of 11.4 megaWatts ("MW") of temporary generation required to serve our customers reliably, increased maintenance expense, increased consulting fees related to the hurricane insurance claim and increased insurance premiums. These costs were partially offset by a gain of \$1.2 million realised in the successful settlement of the insurance claim for a net amount of \$31.1 million (see "Hurricane Ivan Insurance Claim" section on page 11 in the Management's Discussion and Analysis).

Operating revenues for 2006 totalled \$135.7 million, a \$42.8 million, or 46%, increase over \$92.9 million last year. The fuel factor, driven by the increase in fuel prices, represented \$47.0 million of the revenues, an increase of \$23.0 million over last year. Fuel costs increased from \$45.0



Photo: Miguel Escalante, The Photo Centre

David Ritch, O.B.E., J.P., Chairman of the Board of Directors, and Richard Hew, President and Chief Executive Officer.

Kemp's Ridley Turtles

Smallest of the seven species of sea turtles and the most endangered. The Farm houses 41 Kemp's Ridley turtles.



Lepidochelys kempii

To Our Shareholders

million in 2005 to \$72.8 million in 2006 with the average fuel price paid by CUC for the year ended April 30, 2006 at \$2.82 per imperial gallon ("IG") compared to an average of \$2.19 per IG in the previous year. This significant increase in fuel costs impacted customer bills in the latter half of the year.

CUC submitted to the Cayman Islands Government ("Government") on May 23, 2006 its Interim Return containing its year-end 2006 unaudited results indicating that, subject to final audit, the Company, under its current Licence, is entitled to a 2.0% rate increase effective August 1, 2006. This shortfall on Return on Capital Employed ("ROCE") is primarily a result of increased operating expenses and investment in fixed assets. CUC will not seek to implement this rate increase under its agreement with Government in 2005 to freeze basic rates during the recovery of \$13.4 million of hurricane-related expenses through a Cost Recovery Surcharge ("CRS") expected to remain in place until August 2008.

CUC recommenced Licence renewal negotiations with Government in November 2005. Discussions are ongoing, and the Company looks forward to a successful conclusion that will be of long-term benefit to all stakeholders. Our current Licence remains in full force and effect until January 2011 or until replaced by a new Licence by mutual agreement.

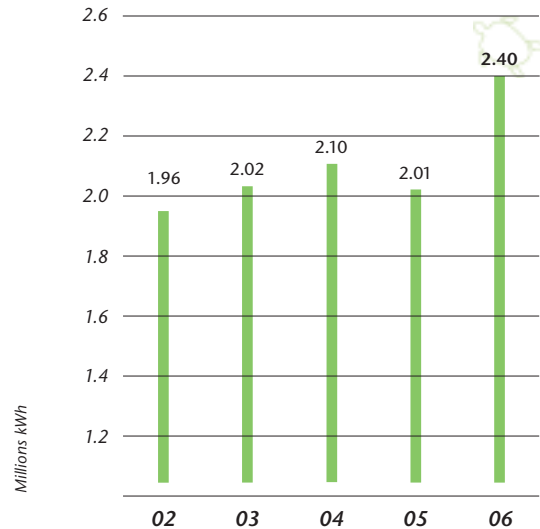
The Management's Discussion and Analysis section of this report contains a detailed discussion of our audited 2006 year-end financial results, hurricane insurance claim, liquidity and capital resources, the Cayman Islands economy and the business risks facing the Company.

2006 peak load was 79.04 MW as achieved on September 13, 2005, or approximately 93% of last year's peak of 85.03 MW. A new post-Ivan peak of 83.40 MW was achieved on June 21, 2006. CUC's available generating capacity on April 30, 2006 was 106.83 MW, including the rental of eight units totalling 11.4 MW in capacity.

The newly installed 8.4 MW gas turbine unit is currently in the final testing stage. Commissioning is expected in July 2006. The repaired Caterpillar units became available for use in late June. As a result of these additions, the eight rental units will be returned by early July.

We expect to exceed our record peak load of 85 MW this summer as demand continues to grow. The gas turbine and Caterpillar projects will return total owned capacity to

Sales per Employee (millions of kWh)



approximately 120 MW for summer 2006, or 98% of pre-hurricane capacity of 123 MW, which will enable us to continue to serve our customers reliably during the peak demand season.

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

In response to the strong growth in electricity demand, in early May, CUC announced that it entered into a project agreement with its generation strategic alliance partner, MAN B&W Diesel AG of Germany, for the purchase and turnkey installation of one 16 MW V48/60 medium-speed diesel generating unit and auxiliary equipment. The contract value with MAN B&W is \$18.4 million and total project cost is estimated at \$22.2 million. The generating unit will be housed at the Company's North Sound Plant and will be commissioned in summer 2007.

Capital expenditures for 2006 were \$33.9 million, including \$9.7 million for the reconstruction of the insured

Green Sea Turtles

Male Greens have long, thick tails, while females have short, stubby tails. Unfortunately, there is no way to tell the sex of juvenile Greens by their appearance.



Chelonia mydas

To Our Shareholders

assets damaged by the hurricane and \$7.1 million for the new gas turbine. Other major capital projects include the bulk fuel oil containment extension and various transmission and distribution (“T&D”) projects.

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

CUC received in July 2005 ISO 14001:2004 certification of its electric power generation and other activities, products and services at the North Sound Road site. This standard is more stringent than the ISO 14001:1996 certification achieved in May 2004. The Company’s ISO certification initiative was undertaken in 2002 as part of its commitment to environmental responsibility and community leadership. ISO 14001 is an internationally recognised environmental standard developed by the International Organization for Standardization and was confirmed to the Company by the Quality Management Institute, a subsidiary of the Canadian Standards Association. CUC is the only organisation in the Cayman Islands to receive ISO 14001 certification.

Our environmental management system (“EMS”) is still

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

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

CUC continues to monitor the possibility of alternative energy sources for Grand Cayman and is encouraged by the development of ocean thermal energy conversion (“OTEC”) technology by Sea Solar Power International (“SSP”). We signed a memorandum of understanding with SSP in 2004 to purchase power from a 10 MW prototype plant to be commissioned by SSP as early as 2009 subject to Government licencing and other approvals. CUC also continues to share its wind energy data collected in 2003



The newly installed 8.4 MW gas turbine was assembled during March and April 2006 and is in the final testing stage. CUC’s newest addition is scheduled to be commissioned in July 2006.

Cayman Turtle Farm

The Farm has been in operation since 1968. Some of the females located in the breeding pond are wild-caught adults that have been at the Farm since 1968 and continue to lay eggs.



To Our Shareholders

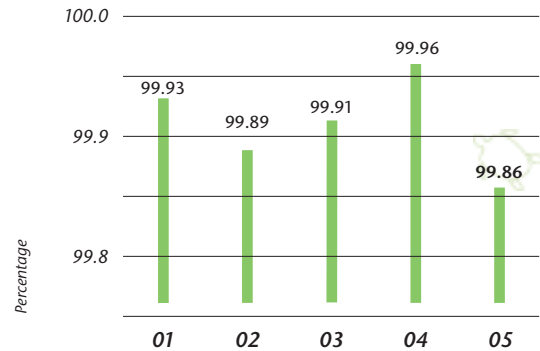
with potential developers who are exploring the feasibility of installing wind turbines in Grand Cayman. We are hopeful that this technology will advance to the point that it becomes feasible in the near future.

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

- (i) the filing of bare Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") certifications of our year-end audited financial statements beginning in fiscal 2004, with the view of filing full certification by fiscal 2007;
- (ii) hiring an Internal Auditor in conjunction with the internal audit function established in 2004;
- (iii) the establishment of a Disclosure Committee, which is chaired by the Company Secretary & Chief Governance Officer and assists the CEO and CFO in implementing, monitoring and evaluating CUC's disclosure controls and procedures in compliance with CSA regulations; and
- (iv) further expanding the Information Circular and Annual

System Availability

(data for the years ended December 31)



Information Form, both of which can be downloaded, along with this Report, from our website (www.cuc-cayman.com).

CUC also confirms that its Board of Directors is comprised of a majority of outside and unrelated directors, and that the Audit Committee and Nominating and Corporate

Governance Committee are entirely comprised of outside and unrelated directors. Both committee mandates are posted to the Company website.

We welcome Sheree Ebanks and Anna Rose Washburn to the Board of Directors. Sheree and Anna Rose were elected to the Board at the Annual General Meeting in August 2005 and serve, along with Philip Barnes, as our Government-nominated Directors.

We are proud to announce the appointment of Andrew Small to Vice-President Production (Designate) effective May 1, 2006. Andrew will be promoted to Vice-President Production on August 1, 2006 and will succeed the retiring Robert Smith. Andrew joined CUC on a Company scholarship in 1993 and has served in a number of management positions throughout his tenure, most recently as Manager Line Department since July 2004.



The Company's Community Involvement Team continues to enjoy a strong bond with the physically and mentally challenged students of the Lighthouse School. Our employees visit the school on a regular basis and host activities such as the Company-sponsored Christmas Stocking Decoration Day in which they assist the students with beautifying their stockings.

Green Sea Turtles

The Green Sea turtle was internationally listed as an endangered/threatened species in July 1978. Total populations in the wild are unknown. Presently, there are approximately 11,000 Greens housed at the Farm.



Chelonia mydas

To Our Shareholders

We congratulate Andrew on his promotion and thank Robert for his contribution to CUC's success during 13 years of service.

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

We are proud to have achieved Investors In People ("IIP") certification in January 2006, as this internationally recognised standard aligns our human resource strategies with our business objectives.

CUC was honoured in January by the Edison Electric Institute ("EEI") of the United States ("US") with the Emergency Recovery Award in recognition of the Company's achievements during its post-hurricane restoration. EEI, an association of shareholder-owned electric utilities, presents this annual award to US and foreign-based member companies to recognise outstanding efforts in restoring electric service that has been disrupted by severe weather conditions or other natural events. We are delighted to have accepted this award on behalf of our employees and overseas partners who worked tirelessly following the storm to make this possible.

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

The CUC family was saddened by the passing of Shane Williams, Manager Systems Operations, in November 2005. Shane spent 14 years with the Company and was part of our talented core of young managers who have risen through the ranks at CUC. We extend our deepest



Photo: Miguel Escalante, The Photo Centre

The prestigious Edison Electric Institute's Emergency Recovery Award was presented to CUC in recognition of the Company's achievements during its post-Hurricane Ivan restoration.

sympathies to his family and friends. He will be greatly missed.

2006 was a challenging year in which we made many milestone accomplishments. Thanks to the dedication and commitment of our employees, we achieved a successful year capped by a customer satisfaction rating of 87% achieved in May 2006. May 10 marked our 40th year of service to Grand Cayman, and during the coming year, we will recognise and reflect on our accomplishments in powering the success of Grand Cayman over the years. Our challenges will not diminish in the future as we strive to deliver strong earnings to shareholders and provide least-cost, world-class service to our customers in an environment in which utility costs are rising significantly. We are entirely confident that with the

continued support and dedication of employees and the management team, and the expert oversight provided by our Board of Directors, we will continue to be successful for many years to come.

David E. Ritch, O.B.E., J.P., Chairman of the Board of Directors

J.F. Richard Hew, President & Chief Executive Officer

June 30, 2006

Loggerhead Turtles

The four Loggerheads at the Farm are actually natural Loggerhead/Green Sea turtle hybrids known locally as "Meguegue".



Caretta caretta

The People Powering Cayman's Success

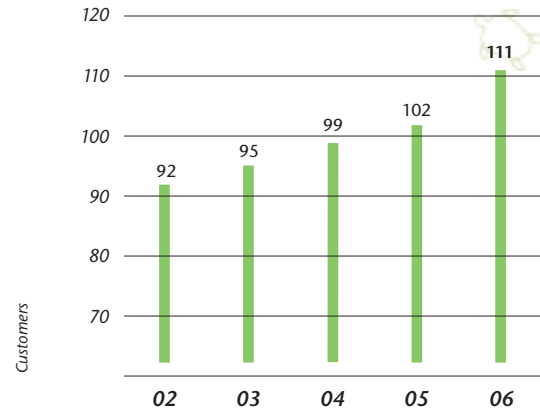
2006 marks CUC's 40th anniversary as the sole provider of electricity on Grand Cayman. The Company and the Island have grown tremendously since we commenced operations on May 10, 1966, and we are proud of our dedicated team of professionals who have helped to power Cayman's success by providing world-class, efficient, safe and reliable service in our growing community.

"We are honoured to be a key partner in Grand Cayman's development over the past 40 years," remarked CUC President and Chief Executive Officer Richard Hew. "Serving a growing economy that relies predominantly on tourism and financial services is a responsibility we take very seriously, and we are committed to making a positive difference in our community. Our 40th anniversary is therefore a reflection of the Island's accomplishments as well as our own."

Celebrating this milestone also has particular significance given CUC's recent recovery from the aftermath of Hurricane Ivan, which was one of the most challenging periods of our Company's history.

CUC considers itself a role model in human resources ("HR") and corporate citizenship. A critical element of our business strategy is to continue to build organisational

Customers per Employee (number of customers)



strength through employee development. Our mission is to attract high-potential candidates and maintain our "employer of choice" status by providing career opportunities and competitive compensation, fostering personal growth and development and encouraging community involvement.

CUC is a leader in employing and developing Caymanians, who represent 90% of the Company's staff and are well represented at the executive, managerial and supervisory levels. We are proud of the fact that, as of April 30, 2006, three of our five executive officers and 13 of 14 managers are Caymanian. This is an impressive achievement considering that half of the Cayman Islands workforce is comprised of expatriates. The benefits of Caymanianisation are the retention of knowledge and skills, the reduction of costs associated with work permits and incentives to



Photo: Maguel Escalante

23 employees, one director and two volunteers were honoured at our annual Long Service Awards Ceremony in May 2006. Recipients included (back row, from left) Thomas Ebanks (15 years), Frank Crothers (25 years), John Thompson (10 years), Fred Jackson (retired, 35 years), Kenneth Bell (Volunteer of the Year), Laurine Rivers (30 years), Jessie Bodden (15 years), Neil Murray (10 years), Hinsley Hurlston (20 years), Andrew Wood (15 years), Alford McLaughlin (15 years), Gabriel Ebanks (30 years); (front row, from left) Marlon Smith (10 years), Paul Lindsay (10 years), Hermine Stoney (10 years), Caren Thompson (15 years), Cherry Smith (10 years), Lavern Welcome (10 years), Rosanah Stewart (25 years), Jason Burke (10 years), and Dennis Connor (20 years). Missing from photo were Edris Ocho (10 years), Johnny Ebanks (15 years), Dwayne McLaughlin (15 years), John DaSilva (20 years) and Dave Thompson (Volunteer of the Year).



Green Sea Turtles

Mating takes place in the waters of the Breeding Pond. Green turtles can mate for up to six days.



Chelonia mydas

The People Powering Cayman's Success

attract permit holders and the positive public image of being a Caymanian company.

As the primary on-Island employer of heavy industry-related technical skills, CUC has over the years relied on imported expertise while developing local talent through in-house apprenticeship programmes and overseas technician and engineering scholarships. We are presently seeing the fruits of this investment with a strong mix of young and seasoned engineers and technicians.



Our dedicated team of linemen help to ensure that our over 21,000 customers are provided with a safe and reliable supply of electricity. Our customer base has returned to pre-Hurricane Ivan levels, and we expect to exceed the pre-Ivan peak demand of 85 MW this summer.

CUC's scholarship programme provides an opportunity for qualified Caymanian students to pursue degrees in engineering, accounting, computer science and other fields from accredited universities and colleges locally and overseas. We have awarded 21 employee scholarships over the past 10 years and will grant two more in fiscal 2007. Our investment has paid off with a strong contingent of young Caymanians who earned their degrees and returned to the Company as accountants, engineers and technicians. Furthermore, our Chief Executive Officer, Richard Hew, Chief Financial Officer, Eddinton Powell, and Vice-President Production (Designate), Andrew Small, are Caymanians who received CUC scholarships and rose through the ranks of the Company. By providing scholarships and bonding graduates to employment with CUC, we are able to attract and retain top local talent, especially in the technical areas.

CUC provides extensive apprenticeship programmes on and off-Island for a wide range of positions. For example, we have a programme with the University College of the Cayman Islands to deliver an electrical theory course for lineman training, as well as an online modular lineman training programme through Northwest Lineman College in Idaho, United States.

Our apprenticeship programmes vary from three to four years and are structured to enable employees to demonstrate both practical and theoretical knowledge in their various fields. The evaluation process consists of a combination of written examinations, on-the-job observation, practical demonstration and accreditation for prior learning experience. The primary emphasis is to view training as a learning process rather than on the basis of written terminal examinations. For instance, our observation methods require supervisors to evaluate performance on criteria such as safety, job planning, theoretical knowledge and practical demonstration. CUC considers this approach as progressive intervention because we believe that written examination only forms part of a requirement.

We have also implemented a cross-training programme in which employees are assigned from one department to another for a specific period of time to learn about different functions and operations. The objective is to enable staff to better understand the role each department plays in the Company and to improve internal communication and external customer relations.

Rapid growth over the past 20 years has necessitated the introduction of a layer of middle managers and supervisors. The composition of this tier has changed over the years, and we now have professional supervisors and managers in key

Cayman Turtle Farm

The Farm contributes to the conservation of the Greens by providing a renewable alternative source for turtles and turtle products, thereby reducing the need to capture sea turtles from the wild.



The People Powering Cayman's Success

positions. As we move to extract greater efficiencies and productivity, the abilities of middle management will play a key role as the link between senior management and most of the resources, human or otherwise, in the electrical utility. To this end, CUC is pursuing several supervisory training initiatives, including:

- » Setting the Supervisory/Management certification of the Institute of Leadership and Management as a minimum requirement for supervisors and managers.
- » Including leadership development training and assignments as a component of the succession planning development process.
- » Implementing a mentoring programme for employees showing high potential for leadership roles.
- » Seeking opportunities to trade out or second employees to other utilities, where practical, to acquire skills and gain a wider perspective of Company operations.

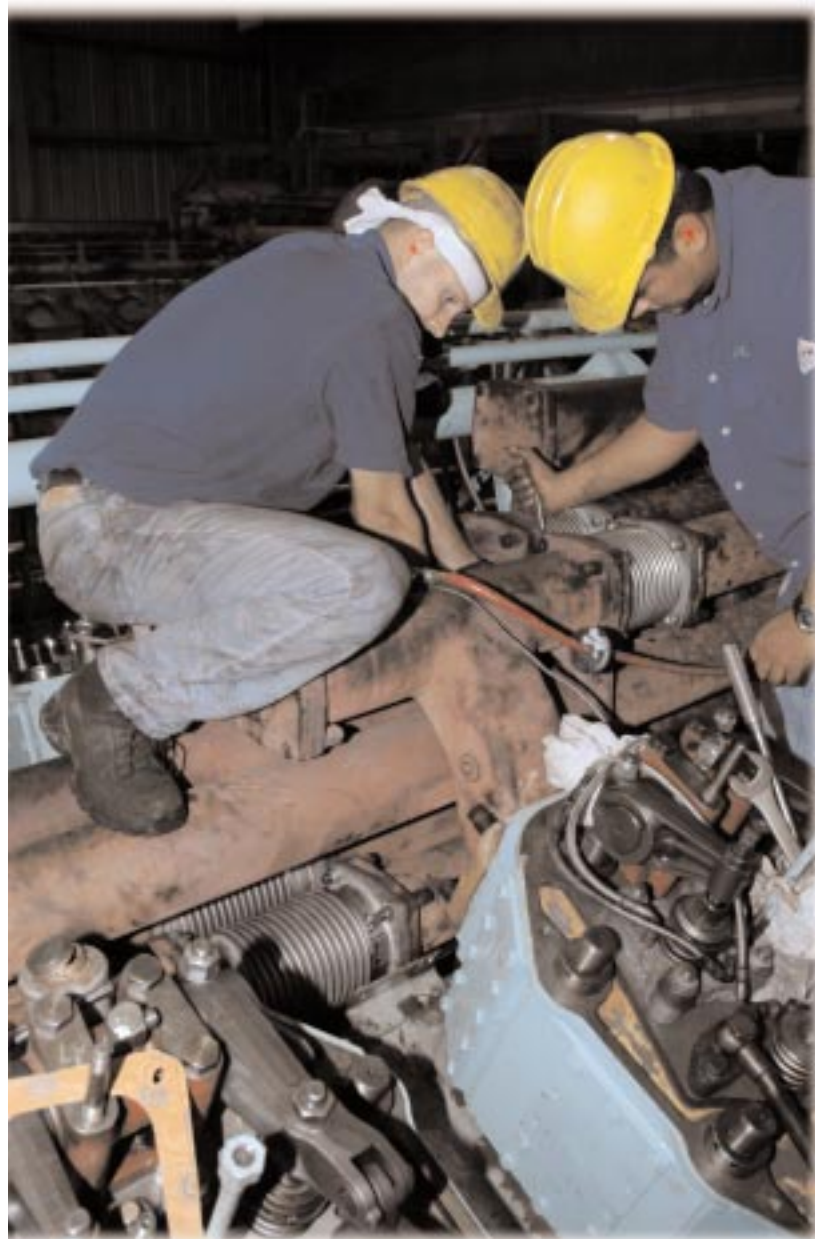
CUC achieved Investors In People ("IIP") certification in January 2006. IIP is an internationally recognised quality standard that provides a framework that aligns our human resources strategies with our business objectives and has been attained by only a handful of organisations on Grand Cayman.

The IIP certification process took nearly a year to complete and included demonstrating that CUC is committed to developing its people in order to achieve its aims and objectives; is clear about its aim and objectives and what its people need to do to achieve them; develops its people effectively in order to improve performance; and understands the impact of its investment in people on performance. We were also required to demonstrate that we have effective programmes in place to meet these principles. Onsite surveillance audits will be conducted every three years to maintain our certification.

CUC has an Employee Long Service Bonus Plan whereby long-serving employees with more than 10 years tenure are awarded 10 Class A Ordinary Shares for each year of service, with such awards presented on the 10th, 15th, 20th, 25th, 30th, 35th and 40th anniversaries of employment. We recognised 23 employees and one director, who collectively completed 400 years of service to the

Company, at our annual Long Service Awards Ceremony in May 2006.

In closing, we are implementing a people strategy designed to help us maintain our position as an employer of choice so that we may continue to power Grand Cayman's success.



Heavy-duty mechanics ensure that the full complement of generating units are available to meet customer demand. In May, we signed a purchase agreement with MAN B&W to install a 16 MW diesel generating unit, which will be commissioned to meet next summer's peak load.

Green Sea Turtles

During nesting season, female Greens lay eggs at night on the Farm's artificial Nesting Beach. The entire process, which includes crawling up the beach, digging the hole, laying, covering the hole and returning to the water, can take up to two hours.



Chelonia mydas

Management's Discussion and Analysis



Eddinton M. Powell, J.P.
Senior Vice-President
Finance & Corporate Services
& Chief Financial Officer

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Financial Statements included in the Caribbean Utilities Company, Ltd. ("CUC" or "the Company") 2006 Annual Report. This material has been prepared in accordance with Multilateral Instrument 51-102 relating to Management's Discussion and Analysis. CUC includes forward-looking statements in this material. By their very nature, forward-looking statements are based on underlying assumptions and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Such risks and uncertainties include, but are not limited to, general economic, market and business

conditions, regulatory developments and weather. CUC cautions readers that should certain events or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. 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. The Board of Directors carries out its responsibility for review of this disclosure principally through its audit committee, comprised exclusively of independent directors. The audit committee reviews this disclosure and recommends its approval by the Board of Directors. Additional information relating to the Company, including CUC's Annual Information Form, is available through SEDAR at www.sedar.com.

Financial information in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and is presented in United States dollars unless otherwise specified.

Corporate Overview

CUC, a vertically integrated utility, operates the only electric utility on Grand Cayman, Cayman Islands pursuant to a 25-year exclusive Licence from the Cayman Islands Government ("Government"), which expires in January 2011. Under the terms of the Licence, the Company is permitted to earn an annual rate of return on its rate base of 15%.

On May 23, 2006, the Company submitted to Government its Interim Return containing its year-end 2006 unaudited results indicating that, subject to final audit and review by Government, the Company, under its current Licence, is entitled to a 2.0% rate increase effective August 1, 2006. This shortfall on Return on Capital Employed ("ROCE") is primarily a result of increased operating

2006 Financial and Operational Highlights

(in \$ unless otherwise noted)

	2006	2005	Change	Change %
Operating revenues	135,676,977	92,871,026	42,805,951	46%
Hurricane Ivan Cost Recovery Surcharge	3,035,493	-	3,035,493	N/A
Business interruption insurance	6,078,760	8,148,086	(2,069,326)	-25%
Total operating expenses	112,328,485	90,189,894	22,138,591	25%
Earnings for the year	22,857,662	4,224,302	18,633,360	441%
Earnings per Class A Ordinary Share	0.87	0.13	0.74	569%
Dividends paid per Class A Ordinary Share	0.660	0.495	0.165	33%
Peak load gross (MW)	79.04	85.03	(5.99)	-7%
Net generation (millions of kWh)	485.52	393.51	92.01	23%
KiloWatt-hour sales (millions of kWh)	456.04	375.74	80.30	21%
Total customers	21,115	19,011	2,104	11%

Hawksbill Turtles

It is said that Hawksbills have the most beautifully patterned shells, with overlapping scutes (plates) and serrated "teeth" along the rear end of the shell.



Eretmochelys imbricata

Management's Discussion and Analysis

expenses and investment in fixed assets. CUC will not seek to implement this rate increase, as it agreed with Government that it would freeze basic rates during the period of the Hurricane Ivan ("the hurricane") Cost Recovery Surcharge ("CRS") (see "Cost Recovery Surcharge" section below).

The Company's outlook for the Cayman Islands is positive, and the economy is expected to experience growth in all sectors during fiscal 2007 (see "Outlook" section on page 23).

Cost Recovery Surcharge

The Company's Final Return to Government containing its year-end 2005 audited results indicated that CUC was entitled to a 9.5% rate increase effective August 1, 2005. This shortfall on ROCE was primarily as a result of costs and loss of revenue and reconstruction of transmission and distribution ("T&D") assets related to the impact of the hurricane that affected Grand Cayman in September 2004. In July 2005, CUC and Government agreed on a CRS to be implemented by the Company to recover its uninsured hurricane-related losses, which primarily resulted from damage to the Company's T&D equipment. These assets were uninsured and remain uninsured, as the Company found it uneconomical to obtain T&D coverage at prevailing rates. The CRS commenced with CUC's August 2005 billings. A flat charge of \$0.0089 per kiloWatt-hour ("kWh") is applied to all customers, which equates to a 4.7% average rate increase over the 2004/2005 rates.

The agreement to forego a part of the permitted 9.5% rate increase allowed under its Licence was without prejudice to CUC's rights and privileges under its Licence, and is specific to the hurricane-related costs and losses only. Any costs or losses resulting from any future catastrophic

event would be subject to recovery under the terms of either the existing or any future Licence or upon terms to be agreed at that time. Under current projections, the CRS is expected to appear on CUC's customer bills for approximately three years from August 2005.

CUC's direct uninsured hurricane losses of \$14.0 million were as follows:

	\$ millions
T&D property, plant and equipment	7.0
Other property, plant and equipment	2.0
Revenue losses during insurance deductible	5.0
Total	14.0

By agreement with Government, CUC will recover \$13.4 million of the \$14 million of uninsured losses. CRS revenues for 2006 were \$3 million, leaving \$10.4 million to be recovered.

Hurricane Ivan Insurance Claim

CUC has agreed a settlement on the hurricane claim with the insurance adjusters in the net amount of \$31.1 million. Based on this settlement, the adjusters have issued a final report, and the underwriters have agreed to these terms. Advanced payments on account totalling \$22.1 million were made as at April 30, 2006, leaving a balance of \$9.0 million to be received. Pursuant to the final settlement, the insurer made a final payment of \$9,075,125 in June 2006.

Gain on Insurance Property Settlement

Description	Book Value of Assets Disposed (\$)	Settlement (\$)	Fiscal 2005 Gain on Disposal of Assets (\$)	Fiscal 2006 Gain on Disposal of Assets (\$)	Total Gain on Disposal of Assets (\$)
T&D and substations	757,796	1,588,585	0	830,789	830,789
Mirrlees units	65,193	2,345,200	1,934,807	345,200	2,280,007
Inventory and other	1,281,043	1,345,685	0	64,642	64,642
Total	2,104,032	5,279,470	1,934,807	1,240,631	3,175,438

Green Sea Turtles

A nesting female can lay over 100 "ping-pong ball-sized" eggs at a time. She can come up to nest at least 10 times during a season.



Chelonia mydas

Management's Discussion and Analysis

Overall, the terms of the settlement are:

	\$ millions
Property Claim (net of deductible)	16.3
Business Interruption Claim	14.8
Total	31.1

The Company's business interruption ("BI") loss claim for 2006 was \$6.1 million and a total of \$14.3 million from the end of the deductible period on October 25, 2004. The remaining balance of \$0.5 million on the BI settlement has been offset against leased generation expenses. There will be no further BI proceeds related to the hurricane claim in CUC's future earnings. The Company's property insurance coverage is on a reinstatement basis, except for the pre-1990 assets, which are covered on an indemnity basis. Due to the nature of the insurance coverage, the settlement terms resulted in a gain of \$1.2 million in fiscal 2006.

A total gain of \$3.2 million has been recorded on the hurricane property claim (see "Gain on Insurance Property Settlement" table on page 11).

Net Earnings and Earnings per Common Share

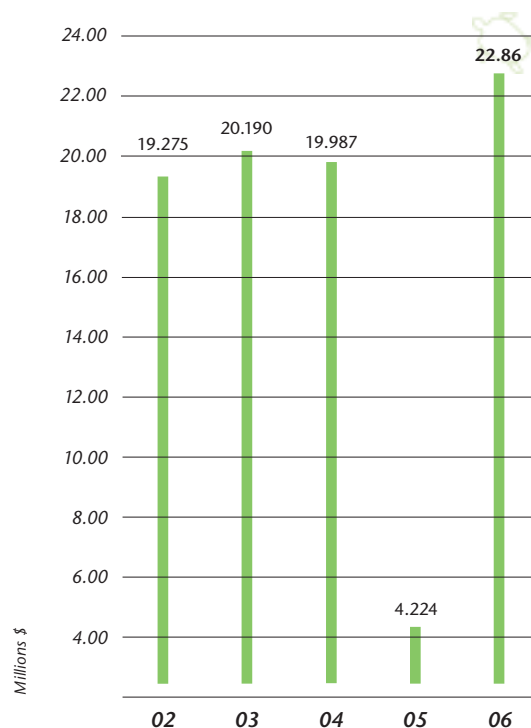
The Company achieved earnings in 2006 of \$22.9 million, or \$0.87 per share, compared to \$4.2 million, or \$0.13 per share, in 2005. The significant year-over-year increase is a reflection of CUC's recovery from the hurricane in 2005. The Company's continued post-hurricane sales recovery, BI insurance proceeds and CRS revenues have positively impacted fiscal 2006 compared to 2005.

Conversely, increased insurance, leased generation, maintenance, consulting fees and interest expenses negatively impacted earnings compared to 2005. These increased costs were partially offset by a gain on the hurricane claim settlement of \$1.2 million.

Operating Revenues

Operating revenue for 2006 totalled \$135.7 million, a \$42.8 million, or 46%, increase over \$92.9 million last year. The increase is due to post-hurricane sales recovery, higher fuel factor revenues, implementation of the CRS and new growth from projects such as the 365-room Ritz-Carlton hotel, which opened in December 2005. The Company has approximately 350 fewer total customers than those connected just prior to the hurricane and is currently connecting more than 100 new customers per month.

Earnings



(Note: Fiscal 2005 was the year of Hurricane Ivan)

Electricity sales in 2006 increased 80.3 million kWh, or 21%, over 2005 to 456 million kWh. This growth is a result of post-hurricane recovery. Residential electricity sales increased 24% and commercial electricity sales increased 19% compared to last year. Total customers as at April 30, 2006 increased 11% to 21,115 as compared to 19,011 as at April 30, 2005, and 21,127 as at April 30, 2004. The Company's forecasted sales growth in fiscal 2007 is 10% as a result of the combined effects of continued recovery as well as an increase in intrinsic demand growth. The CRS is expected to remain on customers' bills for the three years beginning in August 2005 (see "Cost Recovery Surcharge" section on page 11). CUC's earnings, excluding the CRS impact, would have been \$19.9 million, or \$0.75 per share, for the year ended April 30, 2006.

Fuel factor revenue for 2006 of \$47.0 million grew by \$23 million over the same period last year due to a combination of kWh sales recovery and higher fuel prices. Conversely, fuel costs increased from \$45.0 million in 2005 to \$72.8 million in 2006. The average fuel price for the year ended April 30, 2006 was \$2.82 per imperial gallon ("IG") compared to an average of \$2.19 per IG for the year ended

Cayman Turtle Farm

Turtle eggs are recovered from the artificial Nesting Beach and incubated in styrofoam boxes for 50 to 60 days in the temperature controlled hatchery. The boxes display the turtles tag number (1833), box number (46) and date the eggs were collected (12.06.06).



Management's Discussion and Analysis

April 30, 2005. CUC's Licence with Government provides for adjustments to be made to the charges billed to customers to reflect variations in the cost of diesel fuel used in the generation of electricity. Such monthly adjustments allow CUC to recover the variations in the cost of fuel from consumers.

The following table presents sales and customer highlights for the years ended April 30:

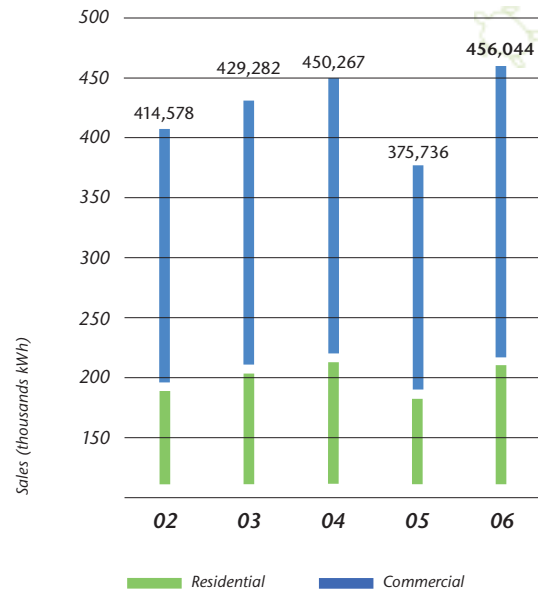
	2006	2005	Change
Customers (#)			
Residential	17,956	16,085	12%
Commercial	3,159	2,926	8%
Total customers	21,115	19,011	11%
Sales (in thousands of kWh)			
Residential	212,408	171,599	24%
Commercial	238,495	199,740	19%
Other (street lighting, etc.)	5,141	4,397	17%
Total sales	456,044	375,736	21%
Revenues (in thousands of \$)			
Residential	40,936	32,377	26%
Commercial	43,733	35,851	22%
Other (street lighting, etc.)	1,018	664	53%
Cost recovery surcharge	3,035	-	N/A
Fuel adjustments	46,955	23,979	96%
Total operating revenues	135,677	92,871	46%

Operating Expenses

Operating expenses for the years ended April 30 were as follows (\$ thousands):

	2006 (\$)	2005 (\$)	Change
Fuel and lube oil costs	72,801	45,019	62%
Other generating costs	4,385	3,265	34%
Total power generation expenses	77,186	48,284	60%
General and administration	11,123	9,818	13%
Customer service and promotion	1,256	1,437	-13%
Transmission and distribution	1,649	8,371	-80%
Depreciation and amortisation	13,584	13,264	2%
Maintenance	7,530	9,016	-16%
	35,142	41,906	-16%
Total operating expenses	112,328	90,190	25%

Residential and Commercial Sales



Power Generation

Power generation expenses for 2006 increased \$28.9 million, or 60%, to \$77.2 million from \$48.3 million last year. The increase was driven by the recovery of post-hurricane production, higher fuel prices and the cost for the lease of standby generation.

CUC leased 11.4 megaWatts ("MW") of capacity beginning in June 2005. Total expense related to the rental of these units is \$1.7 million for the year ended April 30, 2006, net of \$0.5 million recoverable from the insurer. CUC expects the temporary generation to be phased out in early first quarter 2007 as CUC-owned generation is brought back online. Power generation expenses for the years ended April 30 were as follows (\$ thousands):

	2006 (\$)	2005 (\$)	Change
Fuel	74,237	45,783	62%
Lube	1,263	1,016	24%
Deferred fuel	(2,699)	(1,780)	52%
Leased generation	1,684	41	4,007%
Other	2,701	3,224	-16%
Total	77,186	48,284	60%

Green Sea Turtles

In the hatchery, the sex of the Greens is dependent upon the incubation temperatures. At 82°F, an equal number of males and females are produced. At cooler temperatures, all males are produced and at warmer temperatures, all females are produced.



Chelonia mydas

Management's Discussion and Analysis

General and Administration

General and administration expenses for 2006 rose \$1.3 million, or 13%, from 2005 of \$9.8 million, to \$11.1 million due to increased insurance premiums, consulting expenses related to the insurance settlement and pension costs related to the defined benefit pension plans. Total insurance premium expenses were \$3.2 million compared to \$1.9 million for the same period last year. Consulting expenses, primarily related to the hurricane claim, increased 75% to \$0.7 million from \$0.4 million for the same period last year. As the hurricane claim has now been settled, CUC expects its consulting expenses to return to pre-hurricane levels.

The Company established a defined benefit pension plan for the retired Chairman during 2003 and in May 2005, CUC's Board of Directors approved the establishment of a defined benefit pension plan for the retired President and Chief Executive Officer. The pension costs of the defined benefit pension plans are actuarially determined using the projected benefits method. A defined pension expense of \$0.7 million has been recorded for the 12 months ended April 30, 2006, a 133% increase over the \$0.3 million recorded for the same period last year.

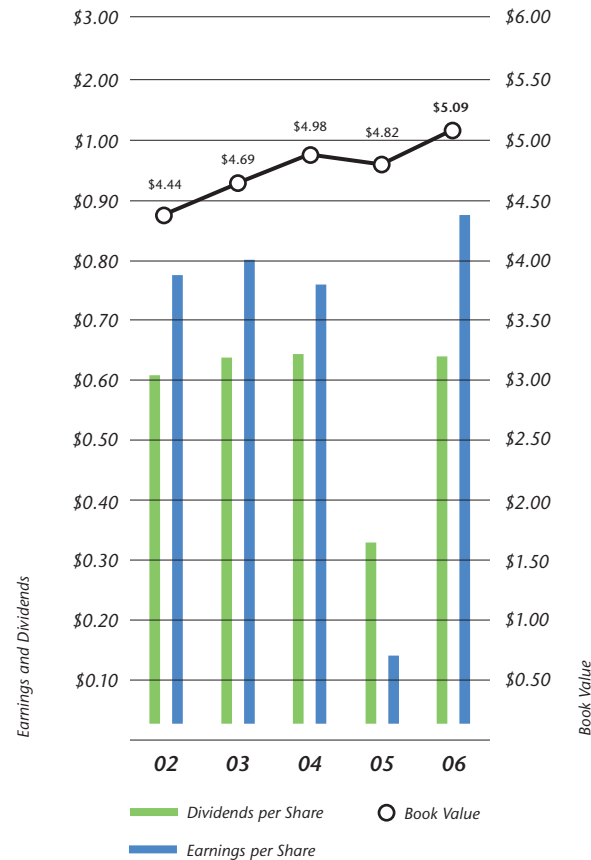
Customer Service and Promotion

Customer service and promotion expenses declined 13% in 2006 to \$1.3 million from \$1.4 million in 2005. In 2005, the Company expensed an additional \$0.4 million for the provision of bad debts in anticipation of losses related to the hurricane. After a thorough review of the Company's customer base in 2006, \$0.3 million of these expected losses actually materialised and were subsequently written-off against the provision.

Transmission and Distribution

T&D expenses for fiscal 2006 totalled \$1.6 million compared to \$8.4 million last year, an 80% decline. 2005 T&D expenses included a charge of \$7.0 million for the write-off of uninsured impaired T&D assets. Additionally, in 2006, T&D expenses were adjusted to record gains for the hurricane settlement on T&D equipment of \$0.8 million (see the "Gain on Insurance Property Settlement" table on page 11). The hurricane affected 20% of CUC's T&D system.

Earnings, Dividends and Book Value per Class A Ordinary Share



T&D expenses for the years ended April 30 were as follows (\$ thousands):

	2006 (\$)	2005 (\$)
T&D maintenance	2,480	1,335
Add: Write-off of hurricane damaged assets	-	7,036
Less: Settlement on covered assets	(831)	-
Net T&D expenses	1,649	8,371

Depreciation and Amortisation Expenses

Depreciation and amortisation ("D&A") expenses for the year totalled \$13.6 million compared to \$13.3 million last year. This increase was a result of new projects, newly constructed T&D assets and assets damaged by the

Kemp's Ridley Turtles

Easily distinguishable from other sea turtles because of their small, drab-coloured shells, adult turtles can weigh up to 100 pounds.



Lepidochelys kempii

Management's Discussion and Analysis

hurricane being returned to service.

As a result of the hurricane, the Company recognised an impairment of its property, plant and equipment for assets that were damaged during the hurricane. In addition, no depreciation charge has been expensed from September 2004 for various insured assets with a net book value of \$17.3 million. The Company expects to see continued increases in D&A expenses as assets are brought back into service and based upon current capital expenditure projections.

Maintenance

Maintenance costs for 2006 declined \$1.5 million, or 16%, to \$7.5 million from \$9.0 million in 2005. CUC expensed \$2.0 million in second quarter 2005 for the insurance deductible net of indemnification for the Mirrlees units damaged during the hurricane. The Company also recognised an additional gain of \$0.3 million in 2006 on the insurance settlement for pre-1990 assets damaged during the hurricane (see the "Gain on Insurance Property Settlement" table on page 11).

Interest Expenses

Interest expense for the year increased \$0.7 million to \$9.2 million from \$8.5 million last year, due primarily to an increase in net borrowings of \$14.5 million. The Company closed in mid-December 2005 on a \$30 million private debt placement of 5.96% Senior Unsecured Notes due December 15, 2020. The closing consisted of a single \$30 million tranche. The debt offering was privately placed with three institutional investors in the United States. Proceeds were used to repay \$18.5 million in short-term indebtedness and to finance ongoing additions to CUC's generation capacity and T&D system.

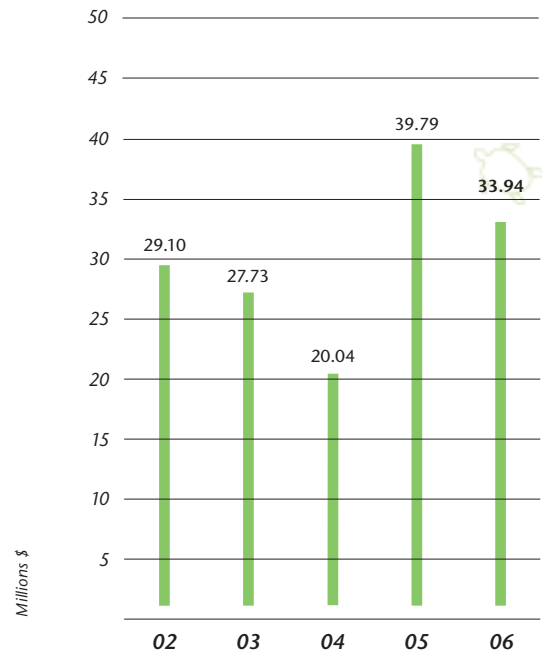
Other Income

Other income for the year increased \$0.4 million, or 40%, to \$1.4 million from \$1 million last year. This is primarily due to gains from the Company's metal recycling programme. More than 100,000 pounds of scrap aluminium conductor and hurricane-damaged transformers were shipped overseas for recycling in 2006. A return to normal levels is forecasted for the metal recycling programme in 2007.

Capital Expenditures and Generating Capacity

Capital expenditures for 2006 were \$33.9 million, including \$9.7 million for the reconstruction of the insured assets damaged by the hurricane and \$7.1 million for the 8.4 MW gas turbine.

Capital Expenditures



2006 peak load was 79.04 MW as recorded on September 13, 2005, or approximately 93% of last year's peak of 85.03 MW. A new post-Ivan peak of 83.40 MW was achieved on June 21, 2006. CUC's generating capacity on April 30, 2006 was 106.83 MW, including the rental of 11.4 MW of generation capacity.

The newly installed 8.4 MW gas turbine unit is currently in the final testing stage. Commissioning is expected in July 2006. The repaired Caterpillar units became available for use in late June. As a result of these additions, the eight rental units will be returned by early July.

The gas turbine and Caterpillar projects will return total owned capacity to approximately 120 MW for summer 2006, or 98% of pre-hurricane capacity of 123 MW. In early May, CUC announced that it entered into a project agreement with its generation strategic alliance partner, MAN B&W Diesel AG of Germany, for the purchase and turnkey installation of one 16 MW V48/60 medium-speed diesel generating unit and auxiliary equipment. This project will cost approximately \$22.2 million to complete. The generating unit will be housed at the Company's North Sound Plant and will be commissioned in summer 2007.

Green Sea Turtles

Even in captivity, the nesting season occurs between May and early October each year.



Chelonia mydas

Management's Discussion and Analysis

Liquidity and Capital Resources

Liquidity

Cash Flow Summary	Year Ended April 30	
	2006 (\$)	2005 (\$)
Cash (Beginning of Period)	962,965	18,004,208
Cash Provided by (Used in)		
Operating Activities	34,983,008	25,738,315
Investing Activities	(33,909,928)	(35,665,779)
Net Financing Activities	(1,460,454)	(7,113,779)
Cash (End of Period)	575,591	962,965

Operating Activities

Cash flow from operations for 2006 increased \$9.3 million to \$35 million compared to \$25.7 million last year. This increase is primarily driven by higher 2006 earnings of \$22.9 million compared to 2005 earnings of \$4.2 million. 2005 earnings were impacted by the hurricane.

Investing Activities

For the year ended April 30, 2006, \$33.9 million was

invested in the purchase of property, plant and equipment, including \$9.7 million for the reconstruction of insured assets damaged by the hurricane. This is a \$5.9 million decline from fiscal 2005, when capital expenditures totalled \$39.8 million primarily from the rebuilding costs associated with the hurricane. Cash used for investing activities declined \$1.8 million for fiscal 2006 to \$33.9 million compared to \$35.7 million in fiscal 2005. Capital expenditures in 2005 were partially offset by the liquidation of CUC's Hurricane Fund of \$4.1 million.

Financing Activities

Cash used in financing activities for 2006 declined to \$1.5 million compared to \$7.1 million for 2005. The decline in these cash outlays is the result of net borrowings in 2006 of \$14.5 million and proceeds from the issuance of shares of \$2.6 million, partially offset by dividends of \$17.6 million and repayment of overdraft facilities of \$1.1 million, compared to net borrowings of \$3.2 million in 2005 and proceeds from share issues of \$1.7 million.

Contractual Obligations

The contractual obligations over the next five years and periods thereafter, as at April 30, 2006, are outlined in the table "Contractual Obligations".

Contractual Obligations

(year ended April 30)
(in \$ millions)

	Total (\$)	< 1 year (\$)	1 to 3 years (\$)	4 to 5 years (\$)	> 5 years (\$)
Total debt	156.0	7.5	35.0	14.0	99.5
MAN B&W Gas Turbine unit	0.7	0.7	-	-	-
Caterpillar plant rebuild	1.4	1.4	-	-	-
MAN B&W 16 MW generating unit	22.2	12.3	9.9	-	-
Total	180.3	21.9	44.9	14.0	99.5

Capital Resources

(year ended April 30)
(in \$ millions)

	2006 (\$)	%	2005 (\$)	%
Total debt	156.0	54%	141.5	53%
Shareholders' equity	133.7	46%	125.7	47%
Total	289.7	100%	267.2	100%

Cayman Turtle Farm

Yearling turtles are grown in larger commercial tanks for four to six years. Turtles harvested for meat at this stage weigh between 60 and 80 pounds. This is the only legal source for meat and shells in the Cayman Islands. Turtle products are not exported.



Management's Discussion and Analysis

Capital Resources

CUC's principal activity as the exclusive provider of electricity in Grand Cayman, a major financial and tourism centre, requires the Company to have ongoing access to capital to build and maintain the electricity system to the community it serves. The Company's capital structure as of April 30, 2006 and April 30, 2005 is shown in the table "Capital Resources" (see page 16).

The change in capital structure is the result of a net increase in debt of \$14.5 million partially offset by an increase in shareholders' equity from earnings.

CUC's credit facilities reverted to pre-hurricane levels following the repayment of the Royal Bank of Canada ("RBC") loans.

CUC had the following credit facilities at RBC as of April 30, 2006:

Description	Details
Capital expenditures line of credit	\$10.0 million
Operating line of credit	\$5.0 million
Catastrophe standby loan	\$5.0 million
Total	\$20.0 million

All of the credit facilities were fully available as of April 30, 2006. In May 2006, the Company drew down \$10.0 million against its capital expenditures credit facility for the interim funding of capital expenditures. Management constantly reviews its level of credit facilities based on liquidity needs.

CUC's credit ratings were as follows as at April 30, 2006:

Agency	Rating
Standard and Poor's	A/Negative
Dominion Bond Rating Service	A (low): Long-Term Debt Pfd-2 (low) - Preferred Shares

Financial Position

The table "Changes in Balance Sheets" is a summary of significant changes to the Company's balance sheet from April 30, 2005 to April 30, 2006.

Changes in Balance Sheets

(from April 30, 2005 to April 30, 2006)

Balance Sheet Account	Increase/(Decrease) (\$ millions)	Explanation
Accounts receivable - trade	4.2	Increase is due to higher consumption and higher fuel factor billings as a result of rising fuel prices.
Other receivable - insurance	(6.8)	Decrease is due primarily to an additional advance of \$12.1 million received from the insurers, offset primarily by an increase in business interruption (BI) insurance receivables of \$6.1 million and a revision of \$2.3 million for the correction of the claim.
Property, plant and equipment	22.5	Net increase is comprised of capital expenditures of (i) \$33.9 million, \$9.7 million of which is related to the reconstruction of assets damaged by the hurricane and (ii) depreciation expense of \$13.6 million, and (iii) a revision of \$2.3 million for the correction of the claim.
Other assets	3.2	Increase is due to increased deferred fuel costs as a result of higher fuel prices and increased consumption.
Current portion of long-term debt	(8.0)	Decrease is due to the repayment of the Royal Bank of Canada (RBC) short-term bridging loan.
Long-term debt	22.5	Increase is due to the new \$30 million 5.96% Senior Unsecured Notes less repayment of the long-term portion of the RBC loan.
Share premium	2.6	Increase is a result of 258,450 shares being issued for this year.
Retained earnings	5.3	Increase is due to a net profit for the period of \$22.9 million, Class A dividends of \$16.7 million and Class B Preference dividends of \$0.9 million.

Green Sea Turtles

Females repeat the nesting process about every 10 days during the season.



Chelonia mydas

Management's Discussion and Analysis

Insurance

The Company has property, machinery breakdown and BI insurance on its generation assets, property and substations. Terms and coverages include \$100 million in property insurance; \$55.0 million in BI insurance per annum with a 24-month indemnity period and a 45-day deductible; and \$15.0 million in machinery breakdown insurance. All T&D assets outside of 1,000 feet from the boundaries of the main plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$1 million, except for windstorm (including hurricane) for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1.0 million and maximum deductible of \$4.0 million for all interests combined.

The Company is currently in the process of renewing its insurance policy for fiscal 2006/2007.

The Economy

The Government's growth forecast for the year ending June 2007 is 3.6%. The construction industry continues to show a strong post-Ivan revival. The 300-acre Camana Bay project is continuing with the first phase expected to open in late 2006. Other major commercial developments under construction include the 37-unit Caribbean Club and 36-unit Water's Edge high-end condominium projects.

Total visitor arrivals for calendar 2005 increased 0.7% over 2004. Within this total, cruise arrivals increased 6.2%.

There was a decline of 35% in air arrivals, which is directly related to the hurricane's effect on the temporary shortage of tourist accommodation. The December 2005 opening of The Ritz-Carlton hotel added 365 guest rooms to the Island's room inventory. The total number of rooms available in Grand Cayman is now 3,435. In addition, there are approximately a further 1,000 rooms still under construction, including 277 hotel rooms, 648 apartment/condominium rooms and 61 guest rooms. Total visitor arrivals for the first quarter of calendar 2006 increased 8% over the same period last year.

The following table presents tourist statistics for the year ended April 30, 2006:

Arrivals	2006	2005	2004	2003	2002
By Air	215,828	188,103	307,154	298,723	313,277
By Sea	1,835,669	1,663,168	1,938,060	1,676,652	1,372,364
Total	2,051,497	1,851,271	2,245,214	1,975,375	1,685,641

Source: Department of Tourism, Cayman Islands Government

The funds sector is a key driver of financial services activity in the Cayman Islands, and the current signs of health are robust. Funds numbers are now at more than 7,200, maintaining a steady rate of growth over the past five years, and there are 160 licenced fund administrators. The Cayman Stock Exchange has more than 1,000 listings, the majority of which are funds, and a market capitalisation of more than \$77.0 billion.

Off-Balance Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity of or the availability of, or requirements for, capital resources. The Company had no such off-balance sheet arrangements as at April 30, 2006.

Business Risks

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

Licence Negotiations

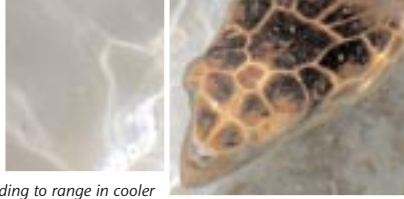
Progress continues to be made in the ongoing negotiations with Government



The new Royal Watler Cruise Terminal in George Town. For the year ended April 2006, Grand Cayman welcomed 1,835,669 cruise ship arrivals.

Loggerhead Turtles

Loggerheads have noticeably larger heads than other types of sea turtles. Full grown Loggerheads can weigh up to 350 pounds and are common throughout the tropics tending to range in cooler waters.



Caretta caretta

Management's Discussion and Analysis

for renewal of the Company's Licence. The Company's current Licence remains in full force and effect until January 2011 or until replaced by a new Licence by mutual consent.

Economic Conditions

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

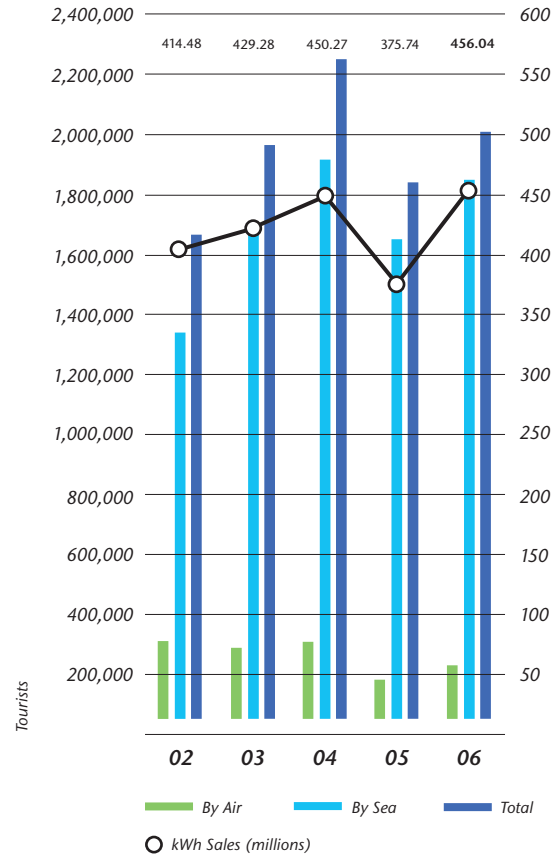
Weather

CUC's facilities are subject to the effects of severe weather conditions. Despite preparations for such disasters similar to the hurricane, adverse conditions will always remain a risk notwithstanding any amount of preparation that is completed. In order to negate some of the risk, the Company maintains insurance coverage management believes is proper and consistent with insurance policies obtained by similar companies.

Correction of an Error in Insurance Claim Estimate

As a result of the impact of the hurricane, the Company recognised an impairment of \$19,463,554 in respect of damaged Property, Plant and Equipment in fiscal 2005. During the insurance claim negotiation process, it was established that an element of the initial claim filed with the insurer included betterment of some assets and certain duplications of the claim which were adjusted in the final settlement. As a result, the Other Receivable - Insurance balance in the prior year was overstated by \$2,334,552 and the Property, Plant and Equipment was understated by the same amount. Correction of these errors has been reflected in the current year by adjusting Property, Plant and

Tourism and Sales



Equipment and the Other Receivable - Insurance by equal adjustments. These adjustments had no impact on net income reporting in fiscal 2005 or 2006.

Future Accounting Pronouncements

Financial Instruments

New accounting standards for financial instruments

(recognition and measurement), hedges and comprehensive income have been issued by the Canadian Institute of Chartered Accountants and are applicable for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. These standards address the

Growth in Financial Sector

(data for years ended December 31)

	2005	2004	2003	2002	2001
Bank and Trust Licences	312	322	471	508	545
Registered Companies	74,905	70,133	68,078	65,259	64,495
Mutual Funds	7,106	5,894	4,808	4,285	3,648
Mutual Fund Administrators	155	173	195	230	217
Captive Insurance Companies	733	694	644	600	543

Source: Cayman Islands Monetary Authority and The Registrar of Companies

Green Sea Turtles

Baby Greens use their egg tooth when they hatch to break the shell of the egg. In the wild, the chance for survival is very low for these young reptiles. They face being eaten by land predators on their frantic journey to the sea as well as in the sea itself.



Chelonia mydas

Photo courtesy of the Cayman Turtle Farm

Management's Discussion and Analysis

criteria for recognition of financial instruments on the balance sheet and the measurement of financial instruments for related gains and losses, provide guidance on how hedge accounting is performed and the required disclosures, and provide standards for reporting and displaying comprehensive income.

Critical Accounting Estimates

The preparation of CUC's financial statements in accordance with 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 revenue and expenses during the year.

Due to the hurricane, the insurance receivable for property, plant and equipment damaged by the hurricane and the amount recorded for the BI claim in the fourth quarter are measured using management's best estimates based on assumptions that reflect the most probable set of economic and planned course of action. The Company has agreed a settlement on the hurricane claim. Based on this settlement, the adjustors have issued a final report, and the underwriters have agreed to these terms.

Selected Annual Financial Information

The table "Selected Annual Financial Information" sets forth the annual financial information for the years ended April 30, 2006, 2005 and 2004. The financial information has been prepared in accordance with GAAP and as

required by utility regulators. The timing of the recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using GAAP for non-regulated entities.

Quarterly Results

The table "Quarterly Results" (see page 21) summarises unaudited quarterly information for each of the nine quarters ended April 30, 2004 through April 30, 2006. 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.

A summary of the past nine quarters reflects the Company's continued growth, temporarily declining as a result of the hurricane in the second and third quarters of fiscal 2005, and subsequent rebounding growth.

April 2006/April 2005

Net earnings for fourth quarter 2006 were \$5.2 million, or \$0.20 per share, compared to \$4.4 million, or \$0.17 per share, for fourth quarter 2005. The increase in earnings reflects continuing strong sales growth and CRS revenues of \$1.0 million. Annual earnings were \$22.9 million, or \$0.87 per share, compared to \$4.2 million, or \$0.13 per share, last year. The significant positive swing is a reflection of CUC's recovery from the hurricane in 2005 and a gain resulting from the insurance settlement (see "Hurricane

Selected Annual Financial Information

(expressed in \$ thousands except per share amounts)

	2006	2005	2004
Operating revenues	135,677	92,871	106,643
Net earnings	22,858	4,224	19,987
Net earnings applicable to common shares	21,928	3,299	19,082
Total assets	312,994	290,159	288,582
Debt	156,038	141,521	138,395
Preference shares	250	250	250
Common shareholders' equity	133,720	125,724	128,925
Earnings per Class A Ordinary Share	0.87	0.13	0.77
Diluted earnings per Class A Ordinary Share	0.87	0.13	0.77
Dividends declared per Class A Ordinary Share	0.66	0.49	0.65
Dividends declared per Class B Preference Share including bonus	3.72	3.70	3.62

Cayman Turtle Farm

Each year, a portion of the one to two year-olds are released into the wild (the Farm's Headstarting Programme). Since 1980, there have been over 31,000 turtles released into the waters surrounding Grand Cayman.



Management's Discussion and Analysis

Ivan Insurance Claim" section on page 11). The Company's continued post-hurricane sales recovery, BI insurance proceeds and CRS revenue have positively impacted fiscal 2006 compared to the same period last year.

January 2006/January 2005

Net earnings for third quarter 2006 were \$3.9 million, or \$0.15 per share, compared to \$5.7 million, or \$0.22 per share, for third quarter 2005. The \$1.8 million decrease was caused by an expense of \$2 million in deferred fuel costs, increased insurance expenses and increased interest expenses partially mitigated by higher electricity sales. Year-to-date earnings were \$17.6 million, or \$0.67 per share, compared to a loss of \$132,316, or losses per share of \$0.04, for the same period last year. This is due to the Company's continuing recovery from the hurricane in 2005. Continued recovery of sales following the hurricane, BI insurance proceeds and CRS revenue also positively impacted the first nine months of 2006 as compared to the same period in the previous year.

October 2005/October 2004

Net earnings for second quarter 2006 were \$6.7 million, or \$0.26 per share, compared to a loss of \$12.2 million, or negative \$0.49 per share, for second quarter 2005. Earnings for the second quarter 2006 were \$18.9 million higher than the same period in the previous year due to the impact of the hurricane on second quarter 2005. CUC recorded \$7.5 million in second quarter 2005 for the write-off of impaired assets, \$2.4 million for the insurance

deductible net of indemnification for pre-1990 assets damaged during the hurricane, and net revenue losses of \$5 million during the BI deductible period, which ended October 25, 2004.

July 2005/July 2004

Net earnings for first quarter 2006 were \$7.1 million, or \$0.26 per share, compared to \$6.3 million, or \$0.23 per share, for the same quarter of the previous year. The improvement was due to BI insurance proceeds on the hurricane claim of \$2.5 million and increased foreign exchange earnings.

April 2005/April 2004

Earnings per share for fourth quarter 2005 were \$0.17, compared with \$0.15 in fourth quarter 2004, due to a \$1.3 million partial deferral of April 2005's fuel cost, revised T&D hurricane loss estimates and BI insurance proceeds. Fourth quarter operating revenues (including fuel factor revenues) were \$21.1 million compared with \$24.9 million in 2004, a \$3.8 million decrease.

Corporate Governance

CUC's management is responsible for establishing and maintaining disclosure controls and procedures to ensure that information used internally and disclosed externally is complete and reliable. The Company established a Disclosure Committee that assists management in ensuring that all disclosures made by CUC to its stakeholders are accurate, complete and fairly present CUC's financial

Quarterly Results (Unaudited)

(expressed in \$ thousands)

Quarter Ended	Operating Revenue	Net Earnings	Income Applicable to Ordinary Shares	Earnings per Share (Basic) (¢)	Diluted Earnings per Share (¢)
April 30, 2006	33,151	5,223	4,945	0.20	0.20
January 31, 2006	34,822	3,884	3,771	0.15	0.15
October 31, 2005	35,936	6,657	6,545	0.26	0.26
July 31, 2005	31,768	7,094	6,667	0.26	0.26
April 30, 2005	21,078	4,356	4,244	0.17	0.17
January 31, 2005	20,574	5,726	5,613	0.22	0.22
October 31, 2004	20,676	(12,202)	(12,315)	(0.49)	(0.49)
July 31, 2004	30,543	6,344	5,757	0.23	0.23
April 30, 2004	24,939	3,960	3,848	0.15	0.16

Green Sea Turtles

New Green hatchlings are no larger than the size of a human palm, and their shells are soft. They are kept in the Farm's hatchery in grow-out boxes for three to five days while absorbing their yolk sacs.



Chelonia mydas

Photo courtesy of the Cayman Turtle Farm

Management's Discussion and Analysis



Photo: Miguel Escalante, The Photo Centre

Abraham Mathew, Manager Business Support and Risk Management, Letitia Lawrence, Manager Financial Services, and Rachell Salao, Internal Auditor.

condition and results of operations in all material respects, and that such information is disclosed and reported on a timely basis as required by applicable laws, regulations and security requirements.

In compliance with the requirements of Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, CUC's President and Chief Executive Officer (CEO) and the Senior Vice-President, Finance and Corporate Services and Chief Financial Officer (CFO) conducted an evaluation of effectiveness of disclosure controls and procedures. Factors considered in the evaluation were the Company's disclosure culture, commitment, capabilities and policies and procedures governing corporate conduct and risk management. Based on this evaluation, CUC's President and CEO and CFO have concluded, with reasonable assurance, that the disclosure controls and procedures of CUC are effective and adequate as of April 30, 2006.

The Board of Directors is comprised of 11 members of which the following are not unrelated Directors: J.F. Richard Hew and Peter A. Thomson.

The Nominating and Corporate Governance Committee has responsibility for the development and administration of compensation policy covering the Company's senior officers and for succession planning within the ranks of senior management. The Committee proposes nominees for election to the Board and reviews and makes recommendations with respect to the compensation of Directors. The Committee is responsible for the development and enforcement of policies designed to ensure that the Company is in compliance with all corporate governance requirements. The members of the Nominating and Corporate Governance Committee are: Frank J. Crothers, H. Stanley Marshall and David E. Ritch (Chairman).

The Audit Committee reviews, on behalf of the Board, the systems of internal control over financial reporting and compliance with legal, regulatory



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The prestigious Ritz-Carlton on world-famous Seven Mile Beach opened its doors in December 2005. Its opening has added 365 guest rooms to the Island's room inventory.

Hawksbill Turtles

Hawksbills have a hawk-like bill and a narrower head and shell than Greens and can weigh up to 180 pounds.



Eretmochelys imbricata

Management's Discussion and Analysis

and other financial management issues to ensure that the reporting systems provide the information required to enable the Board to effectively discharge its responsibilities. The members of the Audit Committee are: J. Bryan Bothwell (Chairman), Philip G. Hughes and David E. Ritch.

Outlook

The economic outlook for the Cayman Islands remains buoyant. Current macroeconomic forecasts indicate that the Cayman Islands' gross domestic product will grow by 3.6% during the 2006/2007 financial year.

CUC forecasts sales to grow by 10% in 2007 versus 2006, reflecting both continued recovery from the hurricane and strong intrinsic demand. Generation and sales growth is expected to average 5% over the next five years.

Controllable operating expenses will increase moderately in 2007. Consultancy fees, which in 2006 were impacted by the insurance negotiation, will return to normal levels in 2007. Lease generation expenses will be minimal, as these leases will end in early fiscal 2007. However, depreciation and insurance premiums will see increases of \$2.0 million and \$0.5 million, respectively. CUC is currently negotiating the renewal of its property and BI insurance coverages, which are scheduled to expire in July.

The Company's 2007 capital expenditure budget is \$38 million:

	\$ (millions) Budgeted 2006/2007
Transmission	3.14
Distribution	13.11
Generation	15.90
Information technology	1.51
Hurricane Ivan reconstruction	3.50
Other	1.23
Total	38.39

CUC expects to invest \$181 million in its capital programme over the next five years, which will be financed by a combination of debt and funds from operations.

Eddinton M. Powell, J.P.
Senior Vice-President Finance & Corporate Services
& Chief Financial Officer

June 30, 2006



An aerial view of the 300-acre Camana Bay development off West Bay Road shows construction work on the Town Centre, which will house shops, restaurants, a cinema and school among other Island-oriented attractions. Once completed, Camana Bay will stretch from Seven Mile Beach in the west to the North Sound (shown at top) in the east, incorporating offices, residences, recreational areas, a harbour, beach access and an abundance of native vegetation.

Green Sea Turtles

The only natural predators of Greens in the wild are tiger sharks. Hatchlings may fall prey to fish, crabs and birds. Because sea turtles are slow-growing and reproduce at such a high age, many populations were decimated to the point of near-extinction.



Chelonia mydas

Taking Corporate Responsibility Seriously

CUC takes its track record as a leading corporate citizen very seriously. We are proud of our employee volunteers who contributed over 1,600 hours to help make a difference in our community over the past year.

The CUC Community Involvement Team commends the civic-mindedness of all employees who participated in various community projects and applaud the outstanding contributions of Dave Thompson and Kenneth Bell, who each contributed over 100 hours.

The Team was established in 1998 after a corporate image review determined that our employees should take a greater hands-on role in our community through participation in mentoring and partnership programmes.

According to Team Facilitator Caren Thompson, "Our Company has always taken its role as a responsible corporate citizen very seriously, and as a key partner in Cayman's growth, our community outreach programmes provide us with an opportunity to further benefit our Island. We are involved in a significant

number of projects, and our accomplishments are second to none."

With over 30 initiatives in progress, the Team is responsible for coordinating volunteers during Company time and on weekends to assist with various causes such as school-based mentoring with Big Brothers Big Sisters; delivering meals to the elderly during lunch breaks in conjunction with the Rotary Club; and beautifying our environment by refurbishing parks and beaches and conducting underwater and roadside cleanups during Earth Week activities coordinated by the Chamber of Commerce.

Employees who participate in the school-based mentoring programme sacrifice their lunch hour every Wednesday to mentor students from George Hicks High School. The organisers screened these employees, who are matched with their "littles" to help them with homework assignments, develop social skills and provide them with someone in which to confide if they have relationship issues at home or school.



Outstanding volunteer Dave Thompson (left), who contributed over 100 hours of community time, supported the Cadet Corps by serving as a Lieutenant on weekends. The Corps was formed in 2001 by the Ministry of Education, and its primary goal is to promote character building in our youth and encourage them to participate in community-oriented activities.



President & CEO Richard Hew (left) and Minister of Sports & Education the Hon. Alden McLaughlin prepare to kick off the opening game of the one-day CUC Primary Football League (PFL) Rally in January 2006, which officially ended the inaugural PFL season. The Company has made a six-year commitment to purchase uniforms and other football equipment for the 14 participating primary schools across the Island.



CUC's mascot, Sparky, spent time with our friends at the Lighthouse School during the Company's Annual Christmas Stocking Decoration Day in December 2005. Employee volunteers enjoy spending quality time with these young people, who have physical or mental disabilities, and coordinates other fun activities throughout the year.

Cayman Turtle Farm

Over 30 publications on sea turtles have resulted from work done at the Cayman Turtle Farm, in addition to many dissertations and unpublished work.



Taking Corporate Responsibility Seriously

Meals on Wheels is another popular choice with over 20 persons delivering hot meals to the elderly each week.

The Company also shares a special affiliation with the Lighthouse School and Sunrise Adult Training Centre, and regular activities are coordinated throughout the year to allow our employees to bond with this very special group of differently abled and enjoyable young people. Activities with the Lighthouse School students include the annual Sports Day, Easter Egg Colouring Day and Christmas Stocking Decoration Day. When the Lighthouse students graduate and move to the Sunrise Centre, they continue to enjoy their friendships with the CUC volunteers, who coordinate special outings such as Pizza and Movie Night, Thanksgiving Lunch and a New Year's Disco Day at a nightclub where employees and trainees danced up a storm for hours. "Having an opportunity to make a positive and lasting difference in the lives of our young people is the most rewarding aspect of our community outreach programmes,"



the powerful game

remarked Thompson. "We can see where the needs of our society lie, rather than cast a blind eye on what is happening the next street over."

After a delayed start due to Hurricane Ivan, in October 2005, we launched the CUC Primary Football League (PFL), which saw over 300 young footballers from 14 primary schools showcase their talents with enthusiastic crowds attending their games and rallies. We have made a commitment to sponsor the PFL for six years, which includes uniforms for both the 'A' teams (under 11) and 'B' teams (under 9), footballs, referee uniforms and other equipment. Trophies for the first year were generously sponsored by State Street Cayman Trust and were presented at an awards ceremony in June. The PFL is coordinated by the Ministry of Education and Sports and our Corporate Communications Department, who had no difficulty rallying support from an enthusiastic group of staff to serve as referees and volunteers. We are confident that next year's League will be equally successful.



Special friendships with the Lighthouse School students are enhanced during activities such as the Annual Sports Day. Community Involvement Team Facilitator Caren Thompson (right) assists Occupational Therapist Kimberly Voaden with little Rashane Kirchman during a race.



Putting a smile on a child's face is a very rewarding aspect of our community outreach programme. Team member and Human Resource Manager Sandra Barnett helps a Lighthouse School student, Jonathon McField, decorate his Easter egg. This event is very popular with the students who are also treated to Easter goodies and a visit by CUC's mascot Sparky.



Outstanding Volunteer Kenneth Bell gets up close and personal with Lance Solomon and Andrew Smiley, students at the Lighthouse School, during Reading Week in November 2005, when employee volunteers spent an hour reading to all classes. The Company has made a commitment to the Department of Education to be a major sponsor of Reading Week in November 2006 and intends to bring in a special presenter to visit schools across the Island.

Green Sea Turtles

While active, turtles can remain underwater for about 20 minutes before coming to the surface for air, and while sleeping, they can remain underwater for up to 12 hours.



Chelonia mydas

Taking Corporate Responsibility Seriously



The Foster Home for Boys was the top beneficiary of the CUC Children's Fund in 2006 and took delivery of two computers from Community Involvement Team members Sandra Barnett (left) and Keisha Yates (right). In addition to this donation, Outstanding Volunteer Dave Thompson (third from right), who identified the Home's needs, was also on hand to make a personal contribution of software for the boys in residence.



Spending Saturday mornings with other employees can be quite enjoyable and rewarding, especially when it is spent constructing a much-needed cabana on the field at Truth For Youth School. Members of the Line Crew spearheaded the project with support from other employee volunteers. Budding contractors included Kary Blythe, Dave Thompson, Gary Whittaker, Gerry Holness, Greg McLaughlin, Jessie Bodden and Michael Whittaker.



Peter Williams of Financial Services dances up a storm with a trainee, Elena Ow, of the Sunrise Adult Training Centre during a New Year's Disco Day arranged with a nightclub for a fun afternoon in early January 2006. Employees share a special friendship with the trainees, who look forward to the many activities that are coordinated throughout the year.

An important initiative implemented by the Community Involvement Team in early 2001 was the CUC Children's Fund, which allows employees to make donations through monthly salary deductions or a one-time donation to assist with youth causes. Over the past five years, a popular choice with employees has been to support Maple House, a long-term residential unit for children who are severely mentally and physically challenged, with their equipment needs. In addition, the Fund also provided financial assistance to young people for medical purposes or school uniforms and supplies.

The Company is committed to helping our youth achieve academic excellence and realise their full potential. We sponsor the Student of the Year award for John Gray High School, and the recipient each year is awarded a scholarship for an Associate's degree at a local institution or the equivalent in funds towards a degree at an overseas university. In an effort to help create greater



awareness of our environment, we have partnered with the Education Department and introduced an environmental education programme in 2001 for primary school students, who also have the opportunity during the week-long session to visit the Central Mangrove Wetlands and plant seedlings along our coastlines to replace native trees destroyed by Hurricane Ivan.

For over two decades, we have been a major supporter of the development of track and field, and in addition to sponsoring the National Age Group Championships, we recently became a quadrennial sponsor to help fund the governing body's cost for athletes' training and participation in overseas meets.

Another major feature on the sports calendar is the annual CUC 800m Sea Swim in November, which attracts over 100 participants. The Seven Mile Public Beach will be our major project this summer as the Line Department gears up to install

Cayman Turtle Farm

The Farm utilises a "living tag system" for released turtles. A tiny piece of hatching plastron is surgically implanted into the carapace (shell), which forms a permanent tattoo that grows with the turtle. Approximately 60% of the 31,000 releases were tagged.



Taking Corporate Responsibility Seriously



CUC did its part to protect our fragile environment during Earth Week activities coordinated by the Chamber of Commerce in April 2006. Taking time out to enjoy the early morning breeze, while collecting trash along the waterfront, were Jeff Thacker, Abraham Mathew, Sandra Barnett, Rachell Salao and Outstanding Volunteers Dave Thompson and Kenneth Bell.



Staunch community volunteer Rosanah Stewart (left) greets one of her "clients" during her rounds for the Meals on Wheels programme, which is coordinated by the Rotary Club of Grand Cayman. Over 20 employees sacrifice their lunch hour one day per week to deliver hot lunches to the elderly. This is one of the many partnerships that are maintained as part of our community outreach efforts to make a difference in our community.



Maintaining a pristine underwater environment for residents and visitors to enjoy is paramount! CUC Dive Team members Philip Parchment (left) and Ross Clark hand a load of debris from the George Town Harbour to Brad Dunz of MasTec Inc., our line contractors, during Earth Week activities. The Dive Team regularly conducts cleanups of popular dive sites to help maintain Grand Cayman's reputation as a world-class dive destination.

poles for the reconstruction of 11 cabanas in conjunction with the Leo Club and FirstCaribbean Bank, who is funding construction costs for the cabanas. In addition, we will be installing a new playground to replace the one that was damaged during Hurricane Ivan. We are excited about this project, as the Public Beach was the first major project that was undertaken after the Team was established in November 1998. Similar cabana projects have been undertaken at Colliers Beach in East End, where two cabanas were constructed, Kaibo Beach in North Side and Spotts Beach, where a refurbishment was undertaken.

"These types of hands-on projects allow us to make an impact on a large number of youth and the community at large as we help to create a pleasant and safe environment for them to enjoy during family outings," remarked Thompson. "Major activities slowed after Hurricane Ivan in 2004 as we had to focus our efforts on the rebuilding of our network, but our

employees are committed to the cause every day of the year. I have no doubt that we will continue to meet and exceed our targets for corporate responsibility by assisting wherever we can."

As we celebrate 40 years of powering Cayman's success, we have set the bar higher and expect to see an even greater number of employees contributing towards the target of 1,700 volunteer hours for fiscal 2007. Time spent making a difference in our community is time well spent. Our true goal is to become the "ultimate corporate citizen"! We see ourselves as playing a supporting role, and this is our way of investing in our Community.

As we strive to enrich our community's spirit through these programmes, we are reminded of the famous words of Mahatma Gandhi, who said, "I shall pass through this world but once. Any good therefore that I can do or any kindness that I can show to any human being, let me do it now. Let me not defer or neglect it, for I shall not pass this way again..."



Red Mangrove

Where Your Dollar Went

The shells of sea turtles are lighter and more hydrodynamic than the shells of turtles that live on land, allowing them to glide easily through water. Turtle shells are considered the most highly developed protective armour of any vertebrate species to have ever lived. The dorsal portion of the shell is known as the carapace and is covered with large scale-like structures called scutes. The ventral portion of the shell is known as the plastron. It is a universal ecological observation that the patterns on the scutes of the Green Sea turtle take on the appearance of turtle grass, a delicacy for Greens in the wild. The patterns are most striking on shells of year-old turtles. As the turtles age, the pattern and colour of the shells slowly fade.

12



Labour and Materials

Our dedicated team of 191 employees and well-maintained equipment provide a safe and reliable electricity service.

22



Loans and Loan Interest

\$43 million was paid in interest and principal repayments on loans. This included the liquidation of short-term loans of \$26.5 million.

30



Fuel and Oil

Our generators consumed 26 million gallons of diesel fuel and 188,000 gallons of lube oil this year to meet electrical demand.

18



Capital Expenditures

\$33.9 million was spent on projects including the reconstruction of insured assets damaged by the hurricane and the 8.4 MW gas turbine.

9



Dividends

Approximately 87% of our registered Class A Ordinary shareholders are resident in the Cayman Islands. Our shareholders receive quarterly dividends on their investment.

9



Duty to Government

Duty to Government on fuel and materials amounted to \$18 million. In January 2006, the Government exercised its right under the Licence to increase the duty rate paid by the Company on all foreign purchases from 10% to 15%.





Management's Responsibility for Financial Reporting

The accompanying Financial Statements of Caribbean Utilities Company, Ltd. and all information in the 2006 Annual Report have been prepared by management, who are responsible for the integrity of the information presented, including the amounts that must of necessity be based on estimates and informed judgments. These Financial Statements were prepared in accordance with accounting principles generally accepted in Canada. Financial information contained elsewhere in the 2006 Annual Report is consistent with that in the Financial Statements.

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

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

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

The Financial Statements and Management's Discussion and Analysis contained in the 2006 Annual Report were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of the Company. PricewaterhouseCoopers, 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.

Eddinton M. Powell, J.P.
Senior Vice-President
Finance & Corporate Services
& Chief Financial Officer

J.F. Richard Hew
President &
Chief Executive Officer

Caribbean Utilities Company, Ltd.

Auditors' Report

We have audited the balance sheets of Caribbean Utilities Company, Ltd. ("the Company") as at April 30, 2006 and April 30, 2005 and the statements of earnings and retained earnings, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2006 and April 30, 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers
Grand Cayman, Cayman Islands

June 30, 2006

Balance Sheets

As at April 30, 2006 (expressed in United States Dollars)

	Note	2006 \$	2005 \$
Assets			
<i>Current Assets</i>			
Cash and due from banks	7	575,591	962,965
Accounts receivable - Trade	3	15,681,991	11,480,885
Other receivable - Insurance	4	9,075,125	15,881,941
Inventories		5,172,908	5,330,363
Prepayments		911,092	580,698
		<hr/>	<hr/>
		31,416,707	34,236,852
<i>Property, plant and equipment</i>	5	270,720,745	248,231,244
<i>Other assets</i>	6	10,856,169	7,690,752
		<hr/>	<hr/>
Total Assets		312,993,621	290,158,848
Liabilities and Shareholders' Equity			
<i>Current Liabilities</i>			
Bank overdraft	7	377,041	1,429,889
Accounts payable and accrued expenses	14	20,046,905	18,917,183
Current portion of long-term debt	7	7,497,632	15,482,822
Consumers' deposits and advances for construction		2,811,611	2,566,341
		<hr/>	<hr/>
		30,733,189	38,396,235
<i>Long-term debt</i>	7	148,540,542	126,038,175
		<hr/>	<hr/>
Total Liabilities		179,273,731	164,434,410
<i>Shareholders' Equity</i>			
Share capital	8	1,754,929	1,739,545
Share premium		41,655,512	39,022,418
Contributed surplus		161,647	99,073
Retained earnings		90,147,802	84,863,402
		<hr/>	<hr/>
Total Shareholders' Equity		133,719,890	125,724,438
		<hr/>	<hr/>
Total Liabilities and Shareholders' Equity		312,993,621	290,158,848

Approved on behalf of the Board of Directors by:



David E. Ritch, O.B.E., J.P.
Director



J.F. Richard Hew
Director

The accompanying Summary of accounting policies and Notes form an integral part of these Financial Statements.



Statements of Earnings and Retained Earnings

For the year ended April 30, 2006 (expressed in United States Dollars)

	Note	2006 \$	2005 \$
Operating Revenues			
Electricity sales		85,686,300	68,892,949
Hurricane Ivan cost recovery surcharge	2	3,035,493	-
Fuel factor		46,955,184	23,978,077
<i>Total Operating Revenues</i>		<u>135,676,977</u>	<u>92,871,026</u>
Operating Expenses			
Power generation		77,186,089	48,284,330
General and administration		11,123,115	9,818,393
Consumer service and promotion		1,255,780	1,437,168
Transmission and distribution		1,649,294	8,371,105
Depreciation and amortisation		13,583,795	13,263,704
Maintenance		7,530,412	9,015,194
<i>Total Operating Expenses</i>		<u>112,328,485</u>	<u>90,189,894</u>
Operating Income		<u>23,348,492</u>	<u>2,681,132</u>
Other (Expenses)/Income			
Interest expense		(9,212,208)	(8,498,195)
Foreign exchange gain		1,198,035	867,967
Business interruption insurance	13	6,078,760	8,148,086
Other income		1,444,583	1,025,312
<i>Total Net Other (Expenses)/Income</i>		<u>(490,830)</u>	<u>1,543,170</u>
Earnings for the Year	10	<u>22,857,662</u>	<u>4,224,302</u>
Dividends on preference shares	10	(930,000)	(925,000)
Earnings Applicable to Common Shares		<u>21,927,662</u>	<u>3,299,302</u>
Average Common Shares Outstanding	10	<u>25,221,581</u>	<u>24,924,793</u>
Earnings per Common Share			
Basic	10	<u>0.87</u>	<u>0.13</u>
Diluted		<u>0.87</u>	<u>0.13</u>

Retained Earnings

Balance at beginning of period	84,863,402	89,829,643
Earnings for the period	22,857,662	4,224,302
Dividends	(17,573,262)	(9,190,543)
Balance at end of period	<u>90,147,802</u>	<u>84,863,402</u>

The accompanying Summary of accounting policies and Notes form an integral part of these Financial Statements.

Statements of Changes in Shareholders' Equity

(Expressed in United States Dollars)

	Share Capital							Total Shareholders' Equity \$	
	Class A Ordinary Shares	9% Cumulative Participating Class B Preference Shares	Number of Shares	Amount \$	Number of Shares	Amount \$	Share Premium		Retained Earnings
Balance at April 30, 2004	24,864,975	1,480,058	250,000	250,000	37,328,408	89,829,643	36,500	128,924,609	
Issue of ordinary shares (net) (Note 8)	159,376	9,487	-	-	1,694,010	-	-	1,703,497	
Dividends	-	-	-	-	-	(9,190,543)	-	(9,190,543)	
Earnings for the year	-	-	-	-	-	4,224,302	-	4,224,302	
Stock-based compensation	-	-	-	-	-	-	62,573	62,573	
Balance at April 30, 2005	25,024,351	1,489,545	250,000	250,000	39,022,418	84,863,402	99,073	125,724,438	
Issue of ordinary shares (net) (Note 8)	258,450	15,384	-	-	2,633,094	-	-	2,648,478	
Dividends	-	-	-	-	-	(17,573,262)	-	(17,573,262)	
Earnings for the year	-	-	-	-	-	22,857,662	-	22,857,662	
Stock-based compensation	-	-	-	-	-	-	62,574	62,574	
Balance at April 30, 2006	25,282,801	1,504,929	250,000	250,000	41,655,512	90,147,802	161,647	133,719,890	

The accompanying Summary of accounting policies and Notes form an integral part of these Financial Statements.



Statements of Cash Flow

For the year ended April 30, 2006 (expressed in United States Dollars)

	Note	2006 \$	2005 \$
Operating Activities			
Earnings for the year		22,857,662	4,224,302
Items not affecting working capital:			
Depreciation and amortisation		13,583,795	13,263,704
Stock-based compensation		62,574	62,573
(Profit)/Loss on disposal of fixed assets	5	(959,299)	9,263,169
		<u>35,544,732</u>	<u>26,813,748</u>
Net increase in non-cash working capital balances related to operations		(561,724)	(1,075,433)
<i>Cash flow provided by operating activities</i>		<u>34,983,008</u>	<u>25,738,315</u>
Investing Activities			
Sale of investments		-	4,077,640
Proceeds on sale of fixed assets		30,506	44,790
Purchase of property, plant and equipment		(33,940,434)	(39,788,209)
<i>Cash flow used in investing activities</i>		<u>(33,909,928)</u>	<u>(35,665,779)</u>
Financing Activities			
Proceeds from debt financing		48,500,000	8,000,000
Repayments of debt		(33,982,822)	(4,873,967)
(Decrease)/Increase in bank overdraft		(1,052,848)	1,429,889
Dividends paid		(17,573,262)	(13,373,198)
Net proceeds from issue of ordinary share capital		2,648,478	1,703,497
<i>Cash flow used in financing activities</i>		<u>(1,460,454)</u>	<u>(7,113,779)</u>
Decrease in Net Cash		<u>(387,374)</u>	<u>(17,041,243)</u>
Net Cash - beginning of year		<u>962,965</u>	<u>18,004,208</u>
Net Cash - end of year		<u>575,591</u>	<u>962,965</u>
Supplemental disclosure of cash flow information:			
Interest received during the year		<u>96,804</u>	<u>60,264</u>
Interest paid during the year		<u>9,187,820</u>	<u>9,155,789</u>

The accompanying Summary of accounting policies and Notes form an integral part of these Financial Statements.

Summary of Accounting Policies

As at April 30, 2006 (expressed in United States Dollars)

The financial statements of Caribbean Utilities Company, Ltd. (“CUC” or “the Company”) have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). Principal accounting policies are as follows:

Estimates

The preparation of financial statements in conformity with 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 Due from Banks

Cash and due from banks 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 after making a provision 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. Fuel, lube oil and line inventory are classified as inventory on the balance sheet. Engine spares are carried at cost less provision for obsolescence and are classified as generating equipment under property, plant and equipment on the balance sheet. Inventories are consumed/utilised on an average cost basis.

Property, Plant and Equipment

Property, plant and equipment is stated on the basis of an appraised valuation at November 30, 1984 with subsequent additions at cost.

The cost of additions to property, plant and equipment is the original cost of contracted services, direct labour and related overheads, materials, and interest on funds used during construction. Damaged property, plant and equipment are written off, or appropriate provision made, where damage relates to assets that will be reconstructed.

On certain construction projects, interest is capitalised and included as a cost in the appropriate capital assets account until the asset is available for service.

Depreciation is provided on cost or appraised value 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
Transmission and Distribution	20 to 50
Generation	20 to 50
Other: Buildings	20 to 50
Motor vehicles	5 to 15
Equipment and computers	3 to 20

Long-Term Investments

Long-term investments are stated at cost. When there has been a loss in value of investments that is other than a temporary decline, the investments will be written down to recognise the loss.

Other Assets

Other assets, excluding deferred fuel costs, debt issue expenses and deferred licence renewal costs, are being amortised over 30 years on a straight-line basis commencing with the year ended April 30, 1976. Amortisation of deferred licence renewal costs will commence on conclusion of current licence negotiations.

Fuel Factor and Deferred Fuel Costs

Pursuant to the terms of the Licence (Note 1), the Company is entitled to recover from consumers any increase in the cost of fuel over a set base cost price. These costs are recovered in the form of a surcharge on consumer billings, known as the “Fuel Factor”.

Costs incurred and not yet recovered from consumers pursuant to the Fuel Factor are deferred and offset against the related future revenues recovered from consumers. Movements in deferred fuel costs are recorded as movements in non-cash working capital balances in the Statement of Cash Flows.



Summary of Accounting Policies

For the year ended April 30, 2006 (expressed in United States Dollars)

Deferred Debt Issue Expenses

Deferred debt issue expenses are being amortised over the term of the debt on a straight-line basis from the dates of the relevant debt issue closings.

Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars at the exchange rate prevailing on the Balance Sheets 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 Statements of Earnings.

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

Operating Revenue

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues.

On August 1, 2005, the Company implemented a Cost Recovery Surcharge ("CRS") of \$0.0089 (CI\$0.0075) per kiloWatt-hour ("kWh") to recover approximately \$13.4 million of direct Hurricane Ivan losses (Note 2). Revenue derived from the CRS is taken to income on a bills-rendered basis, adjusted for unbilled revenues.

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.

Segmental Information

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

Fair Values

The fair value of financial assets and liabilities has been determined from market values where available, after taking into account transaction costs that would be incurred to exchange or settle the underlying financial instrument. Where fair values of financial instruments with an immediate or short-term maturity are considered to approximate to 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 predetermined 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 or subsequent events.

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.

Dividends

Dividends are accrued when declared from Retained Earnings.

Employee Benefit Plans

The Company maintains defined benefit and defined contribution pension plans for its employees. The pension costs of the defined benefit plans 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. Actuarial gains or losses are recognised in income in the year in which they occur. The cost of the defined contribution pension plan is expensed as incurred.

Notes to Financial Statements

As at April 30, 2006 (expressed in United States Dollars)

1. Incorporation, Activity and Licence

The Company was incorporated on April 30, 1966 under the laws of the Cayman Islands. Fortis Energy (Bermuda) Ltd. ("the Fortis group") owns 37.16% (2005: 37.17%) of the issued Class A Ordinary Shares of the Company and International Power Holdings Limited owns 14.78% (2005: 14.94%) of the issued Class A Ordinary Shares of the Company (Note 20).

The principal activity of the Company is to generate and distribute electricity in its exclusive licence area of Grand Cayman, Cayman Islands, under a licence from the Government of the Cayman Islands ("the Government") originally dated May 10, 1966, amended November 1, 1979 and renewed for a further 25 years on January 17, 1986. Amendments to the 25-year licence dated January 17, 1986, as amended by a Supplementary Licence dated October 16, 1989, have been negotiated and incorporated into a further Supplementary Licence executed on November 15, 1994 (collectively, "the Licence").

There is a provision in the Licence for subscribers' tariffs to be adjusted per annum to provide the Company with a rate of return of 15% on capital employed as defined in the Licence. The 15% rate of return is fixed for the term of the Licence and does not take into consideration actual interest charges, unless they are in excess of 15% per annum, and costs of capital incurred by the Company.

Within 21 days of the end of each financial year, the Company is obliged to furnish the Government with an Interim Return setting out the results of the operations for that financial year. Not later than three months after the end of such financial year, the Company is under an obligation to submit to the Government audited accounts together either with a certificate by the auditors certifying that the particulars in the Interim Return accord with the audited accounts or, alternatively, with a Final Return that does so accord with the audited accounts (Note 19).

Additionally, the Licence provides for adjustments to be made to the rates billed to consumers to reflect variations in the cost to the Company of diesel fuel used in the generation of electricity. Such adjustments are made on a monthly basis.

The Licence also requires the Company to pay duty on fuel at the rate of \$0.60 per imperial gallon and to pay a turnover fee of 5/8 of 1% per annum based on the previous year's revenue, payable quarterly in arrears. In January 2006, the Government exercised its right under the current Licence to increase the duty rate paid by the Company on all foreign purchases from 10% to 15%. Under the terms of the Company's Licence, customs duties are included in the rate base for capital expenditures and allowable operating expenditures in determining earnings.

The Electricity Regulatory Authority Law came into effect on April 12, 2005. The new law provides for the Electricity Regulatory Authority to govern the generation and transmission and distribution ("T&D") of electricity in the Cayman Islands.

2. Cost Recovery Surcharge (CRS)

In July 2005, CUC and the Government agreed on a CRS to be implemented by the Company for purposes of recovering its uninsured Hurricane Ivan ("the hurricane")-related losses. The CRS commenced with CUC's August 2005 billings. A flat charge of \$0.0089 per kiloWatt-hour ("kWh") is applied to all customers, which equates to a 4.7% average rate increase.

Under current projections, the CRS is expected to appear on CUC's customer bills for approximately three years from August 1, 2005. During the three-year CRS period, CUC has agreed with Government that there will be a freeze on basic billing rates until July 31, 2008. Also, there will be no retroactive increase in basic billing rates after the full recovery of the CRS.

	\$ millions
T&D Property, Plant and Equipment	7.0
Other Property, Plant and Equipment	2.0
Revenue losses during insurance deductible period	5.0
Total	14.0

By agreement with Government, CUC will recover \$13.4 million of the \$14.0 million uninsured losses.

CRS revenues for the year ended April 30, 2006 were \$3.0 million, leaving \$10.4 million to be recovered.



Notes to Financial Statements

For the year ended April 30, 2006 (expressed in United States Dollars)

3. Accounts Receivable - Trade

	2006	2005
	\$	\$
Billings to consumers	15,288,582	11,035,648
Employee Share Purchase Plan	39,983	9,145
Other receivables	353,426	436,092
	<u>15,681,991</u>	<u>11,480,885</u>

The Company's billings to consumers increased due to an increase in total customers in 2006 by 2,104 to 21,115, higher post-hurricane consumption and higher fuel factor rates.

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 12 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.

4. Other Receivable - Insurance

On September 12, 2004, a catastrophic category four hurricane hit Grand Cayman. As a result of the hurricane, the Company recognised an impairment of \$19,463,554 in respect of damaged Property, plant and equipment in fiscal 2005. During the negotiation process, it was established that an element of the initial claim filed with the insurer included betterment of some assets and certain duplications of the claim, which were adjusted in the final settlement. As a result, the Other receivable - Insurance balance in the prior year was overstated by \$2,334,552 and the Property, plant and equipment was understated by the same amount. Correction of these errors has been reflected in the current year by adjusting Property, plant and equipment and the Other receivable - Insurance by equal adjustments. These adjustments had no impact on net income reporting in fiscal 2005 or 2006. In addition, there has been an effect on revenue earned during the year due to business interruption as discussed further in Note 13. The Other receivable - Insurance balance represents both business interruption and property insurance claims relating to the hurricane. The Company's insurers made general advances of \$22.1 million to date, which have been applied against the insurance receivable. In April 2006, the Company reached a preliminary agreement with its insurers for a settlement of \$31.1 million on the hurricane claim. Overall, the terms of the settlement are:

Property Claim (net of deductible)	\$16.3 million
Business Interruption Claim	\$14.8 million
<hr/>	
Total	<u>\$31.1 million</u>

Further to this settlement, the insurers made a final payment of \$9,075,125 in June 2006 (see Note 19 (d)).

Notes to Financial Statements

As at April 30, 2006 (expressed in United States Dollars)

5. Property, Plant and Equipment

	Adjusted Cost/ Appraised Value \$	Accumulated Depreciation \$	2006 Net \$	Adjusted Cost/ Appraised Value \$	Accumulated Depreciation \$	2005 Net \$
Transmission & Distribution	175,279,600	38,594,750	136,684,850	166,422,545	33,397,015	133,025,530
Generation	171,120,477	57,799,097	113,321,380	147,516,533	53,243,021	94,273,512
Other:						
Land	1,170,193	-	1,170,193	1,170,193	-	1,170,193
Buildings	17,626,023	5,018,615	12,607,408	17,328,926	4,611,065	12,717,861
Equipment, motor vehicles and computers	16,295,590	9,358,676	6,936,914	16,575,577	9,531,429	7,044,148
Total Other	35,091,806	14,377,291	20,714,515	35,074,696	14,142,494	20,932,202
Property, plant and equipment	381,491,883	110,771,138	270,720,745	349,013,774	100,782,530	248,231,244

Included in Property, plant and equipment are a number of capital projects in progress with a total cost to date of \$22,858,370 (2005: \$4,720,070). These projects primarily relate to an 8.4 megaWatt ("MW") gas turbine unit, hurricane construction and continuing upgrades to the Company's T&D system.

Also included in generation and T&D is freehold land with a cost of \$4,672,305 (2005: \$4,672,305).

In addition, engine spares with a net book value of \$9,913,756 (2005: \$7,865,262) are included in generation.

During the year, the Company capitalised interest of \$579,578 (2005: \$536,528).

As a result of the hurricane, the Company recognised an impairment in fiscal 2005 of its property, plant and equipment of \$19,463,554 for assets that were damaged during the hurricane. This amount was the sum of the estimated cost to reconstruct these assets that would be reimbursed under the Company's insurance policy (Note 13) plus the estimated cost of the reconstruction of the submarine cable, which would be funded by the Company. Please see Note 4, which discusses an adjustment in the current year relating to an error in the prior year with respect to the determination of the impairment. In April 2006, the Company reached a settlement of \$31.1 million with its insurers on the hurricane claim (Note 4). The property claim was negotiated and settled on a reinstatement basis except for assets purchased prior to 1990. A total gain of \$3.2 million has been recorded on the hurricane property claim:

Gain on Hurricane Property Settlement

Description	Book Value of Assets Disposed (\$)	Final Insurance Settlement (\$)	Fiscal 2005 Gain on Disposal of Assets (\$)	Fiscal 2006 Gain on Disposal of Assets (\$)	Total Gain on Disposal of Assets (\$)
T&D and Substations *	757,796	1,588,585	0	830,789	830,789
Mirrlees Units **	65,193	2,345,200	1,934,807	345,200	2,280,007
Inventory ***	1,281,043	1,345,685	0	64,642	64,642
Total	2,104,032	5,279,470	1,934,807	1,240,631	3,175,438

* Gain recorded to T&D expenses

** Gain recorded to Power Generation expenses

*** Gain recorded to General and Administration expenses



Notes to Financial Statements

For the year ended April 30, 2006 (expressed in United States Dollars)

5. Property, Plant and Equipment (continued)

In addition, no depreciation charge has been expensed since September 2004 for various insured assets with a net book value of \$17,843,761, consisting mainly of the generation plant assets requiring major reconstruction following the passage of the hurricane. These assets were considered to be under reconstruction, and depreciation would commence when the asset was brought back into production. Assets with a book value of \$515,982 were completed and brought back into service as at April 30, 2006, thereby bringing the net book value of assets still under repair to \$17,327,779. The Company will determine whether the reconstructed asset's useful life has increased at the time it is ready for production.

Fixed assets pledged as security are detailed in Note 7.

6. Other Assets

	2006	2005
	\$	\$
Sundry assets	165,956	73,396
Deferred licence renewal costs	920,372	668,431
Deferred debt issue expense	1,508,689	1,387,472
Deferred fuel costs	8,261,152	5,561,453
	10,856,169	7,690,752

Deferred Licence Renewal Costs

Deferred licence renewal costs are related to the ongoing negotiations with the Government for an extension to the Company's licence (Note 19).

7. Long-Term Debt

	2006	2005
	\$	\$
8.47% Senior Unsecured Loan Notes due 2010	7,500,000	9,000,000
6.47% Senior Unsecured Loan Notes due 2013	20,000,000	22,500,000
7.64% Senior Unsecured Loan Notes due 2014	27,000,000	30,000,000
6.67% Senior Unsecured Loan Notes due 2016	30,000,000	30,000,000
5.09% Senior Unsecured Loan Notes due 2018	40,000,000	40,000,000
5.96% Senior Unsecured Loan Notes due 2020	30,000,000	-
4.60% RBC \$8 Million Loan	-	8,000,000
3.00% European Investment Bank #3 due 2009	1,538,174	2,020,997
	156,038,174	141,520,997
Less: Current portion	(7,497,632)	(15,482,822)
	148,540,542	126,038,175

Long-term debt repayments per fiscal year are estimated as follows: Year	\$
2007	7,497,632
2008	10,512,442
2009	10,528,100
2010	14,000,000
2011	14,000,000
2012 and later	99,500,000
	156,038,174

Notes to Financial Statements

As at April 30, 2006 (expressed in United States Dollars)

7. Long-Term Debt (continued)

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

The Company has credit financing facilities with Royal Bank of Canada (“RBC”) comprising:

- a) \$5,000,000 Revolving overdraft line - prime + ½%
- b) \$5,000,000 Catastrophe Stand-by loan - prime + ½%
- c) \$1,538,174 Stand-by letters of credit
- d) \$10,000,000 Demand loan facility for interim funding of expenditures
- e) \$300,000 Corporate credit cards line

The Company also maintains letters of guarantee with RBC of \$1,071,429 to the Government for duties on the importation of materials.

Pursuant to the above facility agreements, RBC agreed to grant letters of credit in favour of European Investment Bank (“EIB”) up to the sum of \$1.5 million (2005: \$2.1 million) (or the equivalent in other acceptable currencies) to secure the obligations of the Company to EIB in respect of finance contracts (dated April 18, 1990 and January 14, 1997) in the same aggregate amount.

As security for the above facilities, RBC has been granted fixed and floating charge debentures totalling \$1.5 million (2005: \$8.5 million) over all assets of the Company (other than land on which the office building is situated). The RBC debentures represent a first charge over the Company’s assets.

Pursuant to a finance contract with EIB dated January 14, 1997 for an aggregate maximum facility of an amount equivalent to 4,000,000 European Currency Units (“ECU’s”), the Company pays a subsidised interest at the greater of 3% or the average prevailing rate of comparable loans at the time of drawdown less 3.25%. Under the agreement, notional interest equal to the subsidy is paid into a restricted use funding account held by the Company. These funds can only be used for certain projects mitigating the effect of the Company’s activities on the environment. Disbursement of the funds is subject to the prior approval of EIB. As at April 30, 2006, included within Cash and Due from Banks is an amount totalling \$nil (2005: \$252,815), which represents the Company’s contribution into the restricted account. Upon the approval of EIB, during 2006, the Company drew down on the balance of funds held in the restricted account. EIB has also given approval that the Company is no longer required to make payments into this restricted account, as it has already incurred sufficient expenditures on environmentally-related projects to compensate for the subsidy over the remaining period of the loan.

Interest expense on the long-term debt amounted to \$8,845,571 (2005: \$8,320,183).

8. Share Capital

	2006 \$	2005 \$
Authorised:		
60,000,000 (2005: 60,000,000) Class A Ordinary Shares of C1\$0.05 each		
250,000 (2005: 250,000) 9% Cumulative Participating Class B Preference Shares of \$1.00 each (non-voting)		
1 Cumulative Participating Class D Preference Share of C1\$0.56 (non-voting)		
Issued and fully paid:		
25,282,801 (2005: 25,024,351) Class A Ordinary Shares	1,504,929	1,489,545
250,000 (2005: 250,000) 9% Cumulative Participating Class B Preference Shares (\$1.00 par value) issued at a premium of \$19.00 per share	250,000	250,000
	1,754,929	1,739,545



Notes to Financial Statements

For the year ended April 30, 2006 (expressed in United States Dollars)

8. Share Capital (continued)

The Class B Preference Shares (“Class B Shares”) are entitled to fixed cumulative preferential dividends at a rate of 9% per annum of the par value and premium on such shares. In the event that the dividend payable in any financial year on the Class A Ordinary Shares exceeds \$0.18 per share, the Class B Shares are entitled to an additional dividend of four times the amount of such excess. At the sole option of the Directors, the Company is entitled to redeem all or any of the Class B Shares at any time upon receipt by the Company of an application to redeem such shares.

Share capital movements for the year are summarised as follows:

- 1) 54,399 (2005: 57,231) Class A Ordinary Shares were issued under the Customer Share Purchase and Dividend Reinvestment Plans at between \$11.63 and \$11.90 (2005: \$11.09 and \$12.32) per share.
- 2) 11,950 (2005: 6,825) Class A Ordinary Shares were issued under the Employee Share Purchase and Employee Long Service Bonus Plans at prices between \$11.63 and \$11.90 (2005: \$11.09 and \$12.32) per share.
- 3) 192,101 (2005: 95,320) Class A Ordinary Shares were issued under the Executive Stock Option Plan (Note 9) at between \$10.05 and \$11.46 (2005: \$10.05 and \$11.46) per share.

9. Share Options

On October 24, 1991, the shareholders of the Company approved an Executive Stock Option Plan, 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 vest over a four-year period on each anniversary of the date of the 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 1,051,677. 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.

	Number of options	2006 Weighted- average exercise price per share \$	Number of options	2005 Weighted- average exercise price per share \$
Outstanding at beginning of year	861,301	11.74	961,021	11.58
Granted	-	-	-	-
Exercised	(192,101)	10.05	(95,320)	10.07
Forfeited	(40,900)	12.65	(4,400)	12.73
Outstanding at end of year	628,300	12.20	861,301	11.74

The following table summarises information regarding stock options outstanding at April 30, 2006:

Range of Exercise Prices \$	Options Outstanding			Options Exercisable	
	Number outstanding at April 30, 2006	Weighted-average remaining contractual life	Weighted-average exercise price \$	Number exercisable at April 30, 2006	Weighted-average exercise price \$
11.46 - 13.78	628,300	5.90 years	12.20	573,359	12.04

Notes to Financial Statements

As at April 30, 2006 (expressed in United States Dollars)

9. Share Options (continued)

On September 22, 2003, the Company issued 221,500 options under the Executive Stock Option Plan. These options vest over a four-year period on each anniversary of the date of grant. The options expire 10 years after the date of grant. The fair value of each option granted was calculated to be \$1.13 per option. The fair value was estimated on the date of the grant using the Black-Scholes fair value option pricing model and the following assumptions:

Dividend yield (%)	4.98
Expected volatility (%)	12.00
Risk-free interest rate (%)	4.64
Expected life (years)	7.39

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 the option price. 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, compensation expense was \$62,574 for the year ended April 30, 2006, with an offsetting credit to contributed surplus.

10. Earnings Per Class A Ordinary Share

Basic earnings per Class A Ordinary Share are calculated using the weighted daily average number of Class A Ordinary Shares in issue and after adjustment for the dividends on Class B Preference Shares.

	2006	2005
Earnings for the year	\$ 22,857,662	4,224,302
Less: Preferred dividends	\$ (930,000)	(925,000)
Earnings for the year for basic and diluted earnings per share	<u>\$ 21,927,662</u>	<u>3,299,302</u>
Weighted average number of Class A Ordinary Shares	25,221,581	24,924,793
Plus: Potential dilutive effect of unexercised options	18,333	36,257
Weighted average number of Class A Ordinary Shares used for determining diluted earnings per share	<u>25,239,914</u>	<u>24,961,050</u>
Basic earnings per Class A Ordinary Share	<u>\$ 0.87</u>	<u>0.13</u>
Diluted earnings per Class A Ordinary Share	<u>\$ 0.87</u>	<u>0.13</u>

Diluted earnings per Class A Ordinary Share shows the effect on earnings per Class A Ordinary Share which would result if all dilutive stock options outstanding for the year ended April 30, 2006 had been exercised at the beginning of the year. The dilutive effect of stock options was calculated using the treasury stock method. This method calculates the number of incremental shares by assuming the outstanding stock options are (i) exercised and (ii) then reduced by the number of shares assumed to be repurchased from the issuance proceeds, using the average market price of Class A Ordinary Shares for the year.

11. Directors' and Officers' Remuneration

During the year ended April 30, 2006, the Company had a total of six (2005: seven) executive officers of whom two (2005: two) were also Directors. For the financial year of the Company ended April 30, 2006, the aggregate cash compensation paid to such executive officers for services during such year was \$1,118,275 (2005: \$1,389,853).



Notes to Financial Statements

For the year ended April 30, 2006 (expressed in United States Dollars)

12. Capital Commitments

- a) The Company has signed a seven-year Strategic Alliance with ABB Power T&D Company, Inc. (“ABB”) for major T&D system projects, which commenced in September 1998. CUC and ABB are currently in the process of negotiating a renewal of the Strategic Alliance. The total commitments outstanding under this agreement are \$nil (2005: \$nil).
- b) The Company also signed a 10-year agreement with MAN B&W for generation projects that commenced in February 1999. During 2005, the Company entered into a contract with MAN Turbo for the supply and installation of a new gas turbine. The total commitments outstanding under this agreement are \$0.7 million (2005: \$5.25 million). During 2006, the Company entered into an additional project agreement with MAN B&W for the purchase and turnkey installation of one 16 MW V48/60 medium-speed diesel generating unit and auxiliary equipment. The MAN B&W contract cost for this project is \$18.4 million and the total estimated cost for completion of the project is \$22.2 million.
- c) During 2005, the Company entered into an agreement with ADCO Power Limited for the Caterpillar Plant Rebuild project. This project commenced in March 2005 and the total commitment outstanding under this agreement is \$1.4 million (2005: \$5.0 million). The property insurance settlement of \$16.3 million (Note 4) includes \$4.0 million to partially offset the cost of this project.

13. Insurance Coverage

As discussed in Note 1, the Company operates in the Caribbean, which is susceptible to certain adverse weather conditions such as hurricanes. The Company maintains business interruption (“BI”), machinery breakdown and property insurance (for the estimated replacement cost of buildings and generating plant) with major international insurers.

Terms and coverages include \$100 million in property insurance; \$55.0 million in BI insurance per annum with a 24-month indemnity period and a 45-day deductible; and \$15.0 million in machinery breakdown insurance. All T&D assets outside of 1,000 feet from the boundaries of the main plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each “loss occurrence” is subject to a deductible of \$1 million, except for windstorm (including hurricane) for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1.0 million and maximum deductible of \$4.0 million for all interests combined.

Included in plant and equipment are certain T&D assets with an estimated replacement cost of \$137 million (2005: \$119 million). This value excludes substations which are covered in the main property policies. The Company maintains lines of credit totalling \$20 million with RBC (Note 7). In May 2006, the Company drew down \$10 million against its RBC lines of credit for the funding of capital expenditures (see Note 19).

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. During the year ended April 30, 2006, the Company recorded \$6.1 million in the Statement of Earnings under the terms of such policy and a total of \$14.3 million from the end of the deductible period on October 25, 2004. The remaining balance of \$0.5 million on the \$14.8 million BI settlement (Note 4) has been offset against leased power generation expenses.

14. Pension Plan

All employees of the Company are members of a defined contribution Pension Plan established for the exclusive benefit of employees of the Company and which complies with the provisions of the National Pensions Law. As a term of employment, the Company contributes 7.5% of wages or salary in respect of employees who have completed 15 years of continuous service and have attained the age of 55 years and 5% of wages or salary for all other employees. All contributions, income and expenses of the plan are accrued to, and deducted from, the members’ accounts. The total expense recorded in respect of employer contributions to the plan for the year amounted to \$740,349 (2005: \$717,160). 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. The pension cost of the defined benefit plans are actuarially determined using the projected benefits method. An independent actuary performs a valuation of the obligations under the defined benefit pension plans at least every three years. The latest actuarial valuation of the pension plans for funding purposes was of April 30, 2006. An accrued benefit liability of \$98,001 (2005: \$531,689) is included within Accounts Payable and Accrued Expenses as in the Balance Sheets.

Notes to Financial Statements

As at April 30, 2006 (expressed in United States Dollars)

14. Pension Plan (continued)

	Pension Benefit Plans	
	2006	2005
	\$	\$
Accrued Benefit Obligation		
Balance beginning of year	1,327,367	1,243,436
Interest cost	244,699	83,931
Past service costs	2,585,041	-
Actuarial losses/(gains)	671,078	-
Balance end of year	4,828,185	1,327,367
Plan Assets		
Fair value, beginning of year	207,072	193,360
Actual return on plan assets	27,146	13,712
Employee contributions to plan	355,014	-
Employer contributions to plan	1,132,849	-
Fair value, end of year	1,722,081	207,072
Funded Status - deficit	(3,106,104)	(1,120,295)
Unamortised past service costs	2,320,047	588,606
Unamortised net actuarial loss/(gain)	688,056	-
Accrued benefit liability	98,001	531,689
The Company's defined benefit pension plan asset allocation was as follows:		
Equities	24%	64%
Fixed income	75%	24%
Cash	1%	12%
	100%	100%

During the year ended April 30, 2006, \$687,503 was recorded as compensation expense, which comprises the following:

Interest cost	244,699	83,931
Return on plan assets	(27,146)	(13,712)
Amortisation of past service costs	469,950	221,470
	687,503	291,689
Significant assumptions used		
Discount rate during year (%)	6.00 - 6.75	6.75
Discount rate at year-end (%)	5.25	6.75
Rate of compensation increase (%)	3.00	3.00
Expected long-term rate of return on plan assets (%)	5.00	5.00
Average remaining service period (years)	1.5 - 8.0	2.5

15. Interest Rate Risk

Long-term debt is issued at fixed interest rates, thereby minimising cash flow and interest rate exposure. The Company is primarily subject to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities.



Notes to Financial Statements

For the year ended April 30, 2006 (expressed in United States Dollars)

16. Concentration of Credit Risk

Credit risk represents the potential loss that the Company would incur if the contract counterparties fail to perform pursuant to the terms of their obligations to the Company. The Company does not believe it is subject to any significant concentration of credit risk, except for Other receivable - Insurance. At April 30, 2006, the amount receivable is due from one reputable insurer. The Company has agreed a settlement on the hurricane claim. Based on this settlement, the adjustors have issued a final report, and the lead underwriter has agreed these terms (see Note 19 (d)).

Cash and due from banks balances are largely in place with major financial institutions. Accounts receivable - Trade are largely derived from sales of electricity supplied to consumers throughout Grand Cayman. In addition, the Company holds consumer deposits of \$2,801,428 (2005: \$2,510,219) by way of security.

17. Fair Value of Financial Assets and Liabilities

The carrying amounts reported in the Balance Sheets at April 30, 2006 and 2005 for Cash and due from banks, Accounts receivable and Accounts payable and accrued expenses approximate fair values due to the immediate or short-term maturities of these financial instruments. The fair value of the long-term debt is approximately \$157.6 million (2005: \$150.1 million).

18. Taxation

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

The Company is levied custom duties of CI\$0.60 per imperial gallon of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports.

19. Subsequent Events

- a) The Company submitted to the Government on May 23, 2006 its Interim Return containing its year-end 2006 unaudited results indicating that, subject to final audit and review by Government, CUC, under its Licence, is entitled to a 2.0% rate increase effective August 1, 2006. This shortfall on Return on Capital Employed is primarily a result of increased operating expenses and infrastructure investment. CUC will not seek to implement this rate increase, as it agreed with Government that it would freeze basic rates during the period of the CRS (Note 2).
- b) On May 19, 2006, the Company's Board of Directors declared a regular quarterly dividend of \$0.165 per Class A Ordinary Share, or an annualised dividend of \$0.66 per share. The dividend was paid June 15, 2006 to shareholders of record June 1, 2006.
- c) The Company drew down \$10.0 million in May 2006 against its capital expenditures credit facility with the RBC. This loan was used for the interim funding of capital expenditures.
- d) In June 2006, the Company received the final payment of \$9,075,125 on its hurricane claim from the insurer.

20. Related Party Transactions

At April 30, 2006, 17.15% of the Class A Ordinary Shares (2005: 17.12%) and 7.5% of the Class B Preference Shares (2005: 7.5%) were owned either directly or through entities controlled by Directors or officers of the Company.

21. Measurement Uncertainty

Measurement uncertainty is uncertainty in the determination of the amount at which an item is recognised in financial statements. Due to the hurricane, the property, plant and equipment impairment, the estimated costs to reconstruct, and the related insurance receivable relating to the estimates of reconstruction are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned course of action. With respect to the insurance receivable, the Company has agreed a final settlement on the hurricane claim (Note 4). Based on this settlement, the adjustors have issued a final report, and the underwriters have agreed to these terms.

22. 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

	2006	2005
Operating revenues	135,677	92,871
Other revenues and adjustments	8,721	10,041
Total revenues	<u>144,398</u>	<u>102,912</u>
Operating expenses	<u>112,328</u>	<u>90,190</u>
Income before interest	32,070	12,722
Interest expense and preference dividends	9,212	8,498
Earnings for the year	<u>22,858</u>	<u>4,224</u>

Capitalisation:

Class A Ordinary Shares (nominal value)	1,505	1,490
9% Cumulative Participating Class B Preference Shares (nominal value)	250	250
Share Premium	41,656	39,022
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	<u>156,038</u>	<u>141,521</u>
Total capitalisation	<u>199,449</u>	<u>182,283</u>
Capital expenditures	33,940	39,788
Earnings per Class A Ordinary Share (\$/Share)	0.87	0.13
Dividends per Class A Ordinary Share (\$/Share)	0.66	0.33
Book value per Class A Ordinary Share (\$/Share)	5.09	4.82

Statistical Record:

Net kWh generation (millions of kWh)	485.52	393.51
Net kWh sales (millions of kWh)	456.04	375.74
Peak load (MW) gross	79.04	85.03
Plant capacity (MW)	114.63*	114.63
Total customers (actual number)	21,115	19,011

* Available capacity at April 30, 2006 was 106.83 MW.

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



2004	2003	2002	2001	2000	1999	1998	1997
106,643	96,921	90,124	90,089	76,469	67,058	66,478	61,047
2,276	2,560	2,420	2,133	2,705	1,870	1,784	1,688
108,919	99,481	92,544	92,222	79,174	68,928	68,262	62,735
81,223	72,970	67,621	69,179	58,104	50,802	51,776	49,759
27,696	26,511	24,923	23,043	21,070	18,126	16,486	12,976
7,709	6,321	5,648	3,747	3,079	3,704	3,616	2,666
19,987	20,190	19,275	19,306	17,991	14,422	12,870	10,310
1,480	1,463	1,440	1,428	1,412	1,380	1,307	1,294
250	250	250	250	250	250	250	250
37,328	51,341	63,411	76,799	88,806	51,216	38,892	37,040
-	6,008	12,015	12,015	12,015	12,015	12,015	12,015
-	-	-	-	-	2,000	5,000	8,000
138,395	120,704	102,966	85,732	76,442	49,933	26,263	26,623
177,453	179,766	180,082	176,224	178,925	116,794	83,727	84,862
20,041	27,732	29,095	35,655	43,642	34,131	19,868	19,949
0.77	0.80	0.77	0.78	0.73	0.63	0.57	0.46
0.66	0.64	0.61	0.56	0.47	0.41	0.36	0.33
4.98	4.69	4.44	4.23	3.97	3.70	3.14	2.88
485.63	463.00	448.10	424.71	398.09	376.28	347.52	311.00
450.27	429.28	414.58	393.28	369.42	346.94	326.46	287.29
79.06	77.06	75.99	70.18	65.76	61.11	56.33	50.74
127.40	115.10	115.10	115.10	94.92	94.92	88.37	72.64
21,127	20,269	19,198	19,198	18,463	17,349	16,353	15,482

Directors of the Company

Philip A. Barnes ^
Deputy Manager
Venecredit Bank and Trust, Ltd.
Grand Cayman

J. Bryan Bothwell *
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

Sheree L. Ebanks ^
Director & Head of Wealth Management
Butterfield Bank (Cayman) Limited
Grand Cayman

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

Philip G. Hughes *
President & Chief Executive Officer
FortisAlberta
Calgary, Alberta
Canada

Joseph A. Imparato
Retired Chairman
Grand Cayman

H. Stanley Marshall †
President & Chief Executive Officer
Fortis Inc.
St. John's, Newfoundland
Canada

David E. Ritch, O.B.E., J.P. * †
Chairman of the Board of Directors
Caribbean Utilities Company, Ltd.
Attorney-at-Law
Ritch & Conolly
Grand Cayman

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

Anna Rose S. Washburn ^
Managing Director
Marksons Furniture & Supplies Ltd.
Grand Cayman

Directors Emeritus:

W. Warren Conolly, O.B.E., J.P.
Retired Attorney-at-Law
Grand Cayman

Peter N. Thomson
Retired Executive
Bahamas

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

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

^ Government Director



Officers of the Company

J.F. Richard Hew

President & Chief Executive Officer

Eddinton M. Powell

Senior Vice-President Finance & Corporate Services & Chief Financial Officer

Robert D. Imparato

Company Secretary & Chief Governance Officer

Robert L. Smith

Vice-President Production

J. Lee Tinney

Vice-President Transmission & Distribution

Note: Andrew Small was appointed Vice-President Production (Designate) effective May 1, 2006 and will be appointed Vice-President Production effective August 1, 2006.

Shareholder and Corporate Information

Shareholders

Registered shareholders as of April 30, 2006 were as follows:

<i>Class of Shares</i>	<i>Shareholders</i>	<i>Shares Held</i>
Class A Ordinary Shares	1,781	25,282,801
9% Class B Preference Shares	116	250,000

1,558 Class A Ordinary registered shareholders holding approximately 23% of the outstanding shares are resident in the Cayman Islands, while the balance are resident overseas. Shareholders resident in the Cayman Islands represent 87% of CUC's total Class A Ordinary registered shareholders. Holders of Preference Shares are primarily resident in the Cayman Islands. Fortis Energy (Bermuda) Ltd., a wholly-owned subsidiary of Fortis Inc., holds 9,394,495 Class A Ordinary Shares, or 37.2% of the outstanding shares as of April 30, 2006.

Annual General Meeting

Shareholders of Caribbean Utilities Company, Ltd. are invited to attend the Annual General Meeting of the Company to be held Friday, August 25, 2006 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 materials.

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. Customers may make cash payments of not less than CI\$25 (US\$30) per purchase and up to a total of CI\$12,000 (US\$14,400) 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 Plan may be obtained from CUC's Customer Service Department.

Solicitors

Appleby Spurling Hunter
P.O. Box 190 GT
Grand Cayman

Auditors

PricewaterhouseCoopers
P.O. Box 258 GT
Grand Cayman

Principal Banker

Royal Bank of Canada
P.O. Box 245 GT
Grand Cayman

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
Telephone: (416) 813-4600
Answerline™: (416) 643-5500 or 1-800-387-0825
(Toll-free throughout North America)
Fax: (416) 643-5501
Website: www.cibcmellon.ca
(Acting as principal agent)

Caribbean Utilities Company, Ltd.
P.O. Box 38 GT, Grand Cayman, Cayman Islands
Attention: Assistant to the Company 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 Preference Shares under the existing laws of the Cayman Islands.

Registered Office

Caribbean Utilities Company, Ltd.
P.O. Box 38 GT, Grand Cayman, Cayman Islands
Attention: Assistant to the Company Secretary
Telephone: (345) 949-5200
Fax: (345) 949-4621
Website: www.cuc-cayman.com
E-mail: investor@cuc.ky



Special Thanks

Special thanks to the Cayman Turtle Farm for allowing us the opportunity to visit their facilities and capture images of these wonderful chelonian reptiles.

As noted in the text, CUC was the first Company to sponsor a turtle through the Farm's Adopt-a-Turtle pilot project in October 2005. Funds raised through this programme go directly to research, education and conservation of these endangered animals. We strongly urge other companies and individuals to play a part in preserving Cayman's valuable marine resources.

For further information on how you can help, please contact:



P.O. Box 812 WB
Grand Cayman, Cayman Islands

Tel: (345) 949-3894
Fax: (345) 949-1387

E-mail: info@turtle.ky
www.turtle.ky

Quench your thirst for adventure!

Boatswain's Beach (pronounced "Bo-suns" Beach) invites you to experience the rich history of Caymanian culture as it embraces the sea, creating a unique interactive opportunity to meet a part of our world that is often untouchable.

For further information on Boatswain's Beach, please contact:



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