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**November 2, 2018** 

FOR IMMEDIATE RELEASE

Caribbean Utilities Company, Ltd Announces Unaudited Results for the three and nine

months ended September 30 2018

Caribbean Utilities Company, Ltd. is listed for trading in United States dollars on the Toronto

Stock Exchange under the trading symbol "CUP.U".

Grand Cayman, Cayman Islands - Caribbean Utilities Company, Ltd. (TSX: CUP.U) ("CUC"

or "the Company") announced today its unaudited results for the Third Quarter ended September

30, 2018 (all figures in United States dollars).

Net earnings for the three months ended September 30, 2018 ("Third Quarter 2018") totalled

\$9.2 million, an increase of \$1.5 million when compared to net earnings of \$7.7 million for the

three months ended September 30, 2017 ("Third Quarter 2017"). Net earnings for the nine

months ended September 30, 2018 totalled \$18.9 million, an increase of \$0.6 million when

compared to net earnings of \$18.3 million for the nine months ended September 30, 2017. The

increase in net earnings for the three and nine months ended September 30, 2018 is attributable

to higher electricity sales revenues and other income, and lower general and administration

expenses. These items were partially offset by higher depreciation and transmission and

distribution costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A

Ordinary Shares for the Third Quarter 2018 were \$9.1 million, or \$0.27 per Class A Ordinary

Share, compared to earnings on Class A Ordinary Shares of \$7.6 million or \$0.23 per Class A

Ordinary Share for the Third Quarter 2017.



After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the nine months ended September 30, 2018 were \$18.6 million, or \$0.56 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$18.0 million or \$0.55 per Class A Ordinary Share for the nine months ended September 30, 2017.

Kilowatt hour ('kWh") sales for the Third Quarter 2018 totalled 170.9 million kWh, a decrease of 2.8 million kWh in comparison to 173.7 million kWh for the Third Quarter 2017.

Sales for the nine months ended September 30, 2018 totalled 471.0 million kWh, a decrease of 0.3 million kWh in comparison to 471.3 million kWh for the nine months ended September 30, 2017. Sales for the nine months ended September 30, 2018 were negatively impacted by a 4% decrease in average residential consumption, in addition to a decrease in the number of large commercial customers when compared to the same period last year. However, the number of total customers grew and as at September 30, 2018 were 29,584, an increase of 567 customers, or 2%, compared to 29,017 customers as at September 30, 2017.

The average monthly temperature for the nine months ended September 30, 2018 was 82.5 degrees Fahrenheit as compared to an average monthly temperature of 83.0 degrees for the nine months ended September 30, 2017. The average rainfall for the nine months ended September 30, 2018 was 4.08 inches in comparison to 3.62 inches for the nine months ended September 30, 2017.

Wetter and cooler weather, for the nine months ended September 30, 2018 as compared to the same period in 2017 as well as customer energy efficiency and increasing fuel prices negatively impacted kilowatt hour sales. The Company's average cost per Imperial Gallon of fuel for the Third Quarter 2018 increased 27% to \$3.13, compared to \$2.46 for the Third Quarter 2017.

The Company continued to execute on its Capital Investment Plan ("CIP") to meet customer growth and improve service reliability, and during the Third Quarter 2018 broke ground for the Seven Mile Beach substation. This new substation which is being built at the cost of \$16.7



million will be the Company's first substation to incorporate medium voltage, gas insulated switchgear ("GIS") technology and is also the first of its kind in this region. Following this project, the Company will build a similar substation to serve the Prospect area with ground breaking anticipated in the fourth quarter of this year.

The Company is awaiting the regulator's formal approval of the Integrated Resource Plan ("IRP") which was developed by the Company with public and other stakeholder consultation. The IRP outlines a plan for rapid but stable increase in grid integrated renewable energy sources which will deliver economic and environmental benefits. With world oil prices trending upwards again after an extended period of relatively low and stable prices, the attractiveness of diversified energy sources becomes more compelling.

President and CEO, Mr. Richard Hew, says, "The Third Quarter 2018 kilowatt hour sales were lower than expected but the Company was able to manage costs and deliver an increase in earnings. We continue our investments in leading technology such as the new Seven Mile Beach substation which will serve our customers more reliably and efficiently for many years to come. Rising world fuel prices and the negative impact on cost to serve our customers remain a concern and the Company looks forward to a rapid diversification of the energy sources on the grid during the implementation phase of the Integrated Resource Plan."

The MD&A section of this report contains a more detailed discussion of CUC's unaudited 2018 Third Quarter results, the Cayman Islands economy, liquidity and capital resources, capital expenditures and the business risks facing the Company. The release and Third Quarter MD&A can be accessed at <a href="https://www.cuc-cayman.com">www.cuc-cayman.com</a> (Investor Relations/Press Releases) and at <a href="https://www.sedar.com">www.sedar.com</a>.

CUC provides electricity to Grand Cayman, Cayman Islands, under an Electricity Generation Licence expiring in 2039 and an exclusive Electricity Transmission and Distribution Licence expiring in 2028. Further information is available at <a href="https://www.cuc-cayman.com">www.cuc-cayman.com</a>.



Certain statements in the MD&A, other than statements of historical fact, are forward-looking statements concerning anticipated future events, results, circumstances, performance or expectations with respect to the Company and its operations, including its strategy and financial performance and condition.

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

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Caribbean Utilities Company, Ltd.

# 2018 Third Quarter Report

September 30, 2018







## General Data

## About the Company

Caribbean Utilities Company, Ltd., known locally as "CUC", commenced operations as the only electric utility in Grand Cayman on May 10, 1966. The Company currently has an installed generating capacity of 161 megawatts ("MW"). The record peak load of 105.6 MW was experienced on August 29, 2017. CUC is committed to providing a safe and reliable supply of electricity to over 29,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's development for over the past 50 years.

## **About the Cayman Islands**

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 63,000, are comprised of three islands: Grand Cayman, Cayman Brac and Little Cayman. Located approximately 150 miles south of Cuba, 460 miles south of Miami and 167 miles northwest of Jamaica, the largest island is Grand Cayman with an area of 76 square miles.

A Governor, presently His Excellency Mr. Martyn Roper, 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 representatives from the Sister Islands of Cayman Brac and Little Cayman.

All dollar amounts in this Quarterly Report are stated in United States dollars unless otherwise indicated.

Readers should review the note in the Management Discussion and Analysis section, concerning the use of forward-looking statements, which applies to the entirety of this Quarterly Report.

## Caribbean Utilities Company, Ltd.

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## Fellow Shareholders,

During the three months ending September 30, 2018 ("Third Quarter 2018"), Caribbean Utilities Company, Ltd. ("CUC" or "the Company") recorded an increase in earnings and continued to make the necessary investment to support a growing economy. Employee development also continued with a significant milestone achieved in the leadership and management team.

Growth in the Grand Cayman economy and construction activity continued and our customer numbers grew by 567 or 2% to 29,584 at September 30, 2018, when compared to 29,017 customers as at September 30, 2017. Despite the customer growth, wetter and cooler weather conditions prevailed in the Third Quarter 2018, negatively impacting air conditioning load and overall kilowatt hour ("kWh") sales which were 1.7% lower than kWh sales for the same period a year ago.

Sales for the nine months ended September 30, 2018 totalled 471.0 million kWh, a decrease of 0.3 million kWh in comparison to 471.3 million kWh for the nine months ended September 30, 2017. Sales for the nine months ended September 30, 2018 were negatively impacted by cooler and wetter weather conditions, which were partially offset by an increase in average commercial consumption and higher overall customer numbers when compared to the same period last year.

Net earnings for the Third Quarter 2018 were \$9.2 million, an increase of \$1.5 million when compared to net earnings of \$7.7 million for the three months ended September 30, 2017 ("Third Quarter 2017"). Net earnings for the nine months ended September 30, 2018 totalled \$18.9 million, an increase of \$0.6 million when compared to net earnings of \$18.3 million for the nine months ended September 30, 2017. The increase in net earnings for the three and nine months ended September 30, 2018 is attributable to higher electricity sales revenues and other income, and lower general and administration expenses. These items were partially offset by higher depreciation and transmission and distribution costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2018 were \$9.1 million, or \$0.27 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$7.6 million or \$0.23 per Class A Ordinary Share for the Third Quarter 2017.

During the period under review, the Utility Regulation and Competition Office ("OfReg") approved CUC's request to increase demand rates for its large customer base after a trial period which started on January 1, 2018. The newly introduced demand rates are intended to be revenue neutral to the previous energy only rates and had been under recovering on this basis for the first five months of the year. The rates, as adjusted in June are now proving to be largely revenue neutral. Further reviews of the demand rates for revenue neutrality will be conducted at year end and for each of the following two years.

According to the First Quarter Economic Report from the Cayman Islands Economics and Statistics office ("ESO") which was released in October 2018, overall economic activity in the Cayman Islands grew by an estimated 4.0% for the first three months of 2018. The report stated that the economic performance in the first three months strengthens the macroeconomic outlook for 2018. The ESO is forecasting Annual Gross Domestic Product growth of 3.0% for 2018.

During the Third Quarter 2018 as part of the CIP to meet customer growth and improve service reliability, the Company broke ground on the Seven Mile Beach substation. This new substation which is being built at the cost of \$16.7 million will be the Company's first substation to incorporate medium voltage, gas insulated switchgear technology and is also the first of its kind in this region. The substation will further increase safety and system reliability and will accommodate future load growth within the Seven Mile Beach area. Following this project, the Company will build a similar substation to serve the Prospect area, with ground breaking anticipated in the fourth quarter of this year.

A CIP project to replace and upgrade the Company's central control system ("SCADA") and control room is also on schedule for completion in 2019. The new SCADA system will improve the Company's ability to maintain a stable and reliable grid with more rapid diagnosis and response to grid faults and better capabilities to control a large number of distributed energy sources on the grid as foreseen in the future.

The Company is awaiting OfReg's formal approval of the Integrated Resource Plan ("IRP") developed by the Company with public and other stakeholder consultation. The IRP outlines a plan for rapid but stable increase in grid integrated renewable energy sources which will deliver economic and environmental benefits. With world oil prices trending upwards again after an extended period of relatively low and stable prices, the attractiveness of diversified energy sources becomes more compelling.

The Company's average cost per Imperial Gallon ("IG") of fuel for the Third Quarter 2018 increased 27% to \$3.13, compared to \$2.46 for the Third Quarter 2017. The Company's average cost per IG of lubricating oil for the nine months ended September 30, 2018 increased to \$9.75 when compared to \$9.48 for the nine months ended September 30, 2017. All fuel and lubricating oil costs are passed through to customers without mark—up.

Total energy supplied to the grid for Third Quarter 2018 was 178.9 million kWh, a 2% decrease when compared to 182.2 million kWh for Third Quarter 2017. Total energy supplied is the net amount of energy available to be transmitted and distributed for consumer use, including energy provided by renewable resources such as the Customer Owned Renewable Energy Program and the Entropy Solar Farm. The decrease in total energy supplied is largely driven by wetter and cooler weather in the Third Quarter 2018.

Net fuel efficiency for the Third Quarter 2018 of 18.82 kWh per IG decreased when compared to net fuel efficiency for the Third Quarter 2017 of 19.11 kWh per IG.

Net fuel efficiency for the nine months ended September 30, 2018 of 18.85 kWh per IG decreased when compared to net fuel efficiency for the nine months ended September 30, 2017 of 19.09 kWh per IG. This decrease in net fuel efficiency is due primarily to utilization of less efficient units as other units are undergoing maintenance.

Safety being the most important aspect of our work, the Company hosted its annual Contractors' workshop in July 2018. Now in its fifth year, the workshop attracted twenty local companies. Many businesses got the chance to speak with vendors from North America as well as local vendors who were on hand to showcase their products and services and to update contractors on the safest available protective clothing as well as the latest fire protection gear and road safety equipment.

I am very pleased to report also that there were no lost-time injuries recorded in the Third Quarter 2018. The safety of our employees and that of the public remains our top priority and the Company continues to improve its work processes, employee training, safety management and leadership to eliminate lost-time incidents.

I am proud of the fact that during this period under review, nine employees as well as eleven members of the Company's management team successfully completed and graduated with Level 3 and Level 5 Certificates from the Institute of Leadership and Management ("ILM"). The managers successfully achieved 23 credits as opposed to the 13 required to achieve the Level 5 certificate. This is the highest level achieved by any of ILM's cohorts throughout the Caribbean to date.

What the Company has achieved this quarter, for the year- to- date and for the long term would not be possible without the diligence, commitment and dedication of our employees. I would like to thank them for their commitment to the Company, which has enabled us to deliver a reliable and efficient service to our customers while providing a fair return to you our shareholders.

The Company's vision is to empower Grand Cayman to be a global leader recognising that a reliable electricity service is one of the main ingredients in every successful economy. CUC has an integral role in supporting the growth of the current world-class financial services and tourism industries, and we are prepared to support the new and developing industries of the island's future.

J.F. Richard Hew

President & Chief Executive Officer November 2, 2018

hiet samuel !

### **Interim Management's Discussion and Analysis**

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or "the Company") consolidated financial statements for the twelve months ended December 31, 2017 ("Fiscal 2017"). The material has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to Management's Discussion and Analysis.

Additional information in this MD&A has been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, which are disclosed in the notes to the Company's 2017 annual financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation, the amount and timing of recovery or refund by the Company of costs of providing services, including a fair return on rate base assets, from customers through appropriate billing rates would not be subject to regulatory approval.

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

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

November 2, 2018

### **Financial and Operational Highlights**

### Financial and Operational Highlights

(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)

-						%
	Three	Three	Nine	Nine	Change	Change
	Months	Months	Months	Months		
	Ending	Ending September	Ending September	Ending		
	September 30, 2018	30, 2017	30, 2018	September 30, 2017		
Electricity Sales Revenues	23,345	22,736	63,810	61,963	1,847	3%
Fuel Factor Revenues	28,869	22,641	75,765	62,974	12,791	20%
Renewables Revenues	1,141	776	3,017	1,693	1,324	78%
Total Operating Revenues	53,355	46,153	142,592	126,630	15,962	13%
Fuel & Lube Costs	28,869	22,641	75,765	62,974	12,791	20%
Renewables Costs	1,141	776	3,017	1,693	1,324	78%
Other Operating Expenses	13,910	14,135	43,451	40,514	2,937	7%
Total Operating Expenses	43,920	37,552	122,233	105,181	17,052	16%
Net Earnings for the Period	9,181	7,707	18,888	18,301	587	3%
Cash Flow related to Operating						
Activities	17,409	15,711	40,949	38,227	2,722	7%
Per Class A Ordinary Share:						
Basic Earnings	0.27	0.23	0.56	0.55	0.01	2%
Dividends Paid	0.175	0.170	0.520	0.510	0.010	2%
Total Customers	29,584	29,017	29,584	29,017	567	2%
Total Employees*	221	218	221	218	3	1%
Customers per Employee (#)	134	133	134	133	1	1%
System Availability (%)	99.92	99.92	99.92	99.92	-	0%
Peak Load Gross (MW)	103.6	105.6	103.6	105.6	(2.1)	-2%
Millions of kWh:						
Net Generation	174.0	182.2	480.1	496.8	(16.7)	-3%
Total Energy Supplied	178.9	182.2	489.1	491.0	(1.9)	0%
Kilowatt-Hour Sales	170.8	173.7	471.0	471.3	(0.3)	0%
Sales per employee	0.77	0.80	2.13	2.16	(0.03)	-1%

## \*Total full time employees

## **Corporate and Regulatory Overview**

The principal activity of the Company is to generate, transmit and distribute electricity in its licence area of Grand Cayman, Cayman Islands pursuant to a 20-year exclusive Transmission & Distribution ("T&D") Licence and a 25-year non-exclusive Generation Licence (the "Licences") granted by the Cayman Islands Government (the "Government"), which expire in April 2028 and November 2039, respectively.

The Company is regulated by the Cayman Islands Utility Regulation and Competition Office ("OfReg"), which has the overall responsibility of regulating the electricity, information and communications technology, and the petroleum industries in the Cayman Islands in accordance with the Utility Regulation and Competition Office Law (2016).

The Licences contain the provision for a rate cap and adjustment mechanism ("RCAM") based on published consumer price indices. CUC's return on rate base ("RORB") for 2017 was 6.9% (2016: 7.4%). CUC's RORB for 2018 is targeted in the 7.00% to 9.00% range (2017: 6.75% to 8.75%).

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel, lube and renewables cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2018, following review and approval by the OfReg, the Company increased its base rates by 1.8%. This increase was a result of the 2017 RORB and the increase in the applicable United States ("US") and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2017. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80% based on the range of the RORB values. The required rate adjustment of 1.8% can be calculated by applying 80% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 2.2%. All fuel, lubricating oil and renewables costs are passed through to customers without mark-up as a per kWh charge. Rate base is the value of capital upon which the Company is permitted an opportunity to earn a return. The value of this capital is the average of the beginning and ending values for the applicable financial year of: fixed assets less accumulated depreciation, plus the allowance for working capital, plus regulatory assets less regulatory liabilities.

CUC submitted its 2018-2022 Capital Investment Plan in the amount of \$234 million to OfReg. It is expected that this plan will be approved in the Fourth Quarter of 2018.

Prior to May 1, 2018, a licence fee of 1%, payable to the Government, was charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge. In addition to the licence fee, a regulatory fee of  $\frac{1}{2}$ 0 of 1% was charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month. Effective May 1, 2018, OfReg approved a change to the Licence & Regulatory fee structure, whereby the objective is to collect fixed amounts annually of \$2.9 million and \$1.4 million respectively. This translates to a rate of \$0.0149 per kWh, which is applied to customer billings with consumption over 1,000 kWh per month as a pass-through charge.

In the event of a natural disaster as defined in the T&D Licence, the actual increase in base rates will be capped for the year at 60% of the change in the Price Level Index and the difference between the calculated rate increase and the actual increase expressed as a percentage, shall be carried over and applied in addition to the normal RCAM adjustment in either of the two following years if the Company's RORB is below the target range. In the event of a disaster, the Company would also write-off destroyed assets over the remaining life of the asset that existed at the time of destruction. Z Factor rate changes will be required for insurance deductibles and other extraordinary expenses. The Z Factor is the amount, expressed in cents per kWh, approved by the OfReg to recover the costs of items deemed to be outside of the constraints of the RCAM.

Performance standards provide a balanced framework of potential penalties or rewards compared to historical performance in the areas of planning, reliability, operating and overall performance. Standards include "zones of acceptability" where no penalties or rewards would apply.

CUC's wholly-owned subsidiary, DataLink, Ltd. ("DataLink"), was granted a licence in 2012 from the ICTA (now referred to as the OfReg) permitting DataLink to provide fibre optic infrastructure and other information and communication technology ("ICT") services to the ICT industry. DataLink is subject to regulation by OfReg in accordance with the terms and

conditions of its Licence which currently extends to March 27, 2027. CUC and DataLink have entered into three regulator approved agreements:

- 1. The Management and Maintenance agreement;
- 2. The Pole Attachment agreement; and
- 3. The Fibre Optic agreement

## **Consolidation Accounting Policy**

The condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary DataLink. All intercompany balances and transactions have been eliminated on consolidation.

#### Sales

Sales for the three months ended September 30, 2018 ("Third Quarter 2018") totalled 170.8 million kWh, a decrease of 2.9 million kWh in comparison to 173.7 million kWh for the three months ended September 30, 2017 ("Third Quarter 2017".)

Sales for the nine months ended September 30, 2018 totalled 471.0 million kWh, a decrease of 0.3 million kWh in comparison to 471.3 million kWh for the nine months ended September 30, 2017. Sales for the nine months ended September 30, 2018 were negatively impacted by cooler and wetter weather conditions, which was partially offset by an increase in average commercial consumption and higher overall customer numbers when compared to the same period last year.

For the nine months ended September 30, 2018 average consumption per residential customer was 1,042 kWh in comparison to 1,083 kWh for the nine months ended September 30, 2017, a decrease of 4%.

Total customers as at September 30, 2018 were 29,584, an increase of 567 customers, or 2%, compared to 29,017 customers as at September 30, 2017.

The following tables present customer and sales highlights:

Customers			
(numbers)	September 30, 2018	September 30, 2017	% Change
(numbers)	September 30, 2010	September 30, 2017	70 Change
Residential	25,215	24,721	2%
Commercial	<u>4,369</u>	<u>4,296</u>	<u>2%</u>
Total Customers	29,584	29,017	2%

Sales						
(thousands kWh)	Three	Three	Nine	Nine	Change	%
(tilousalius kwii)	Months	Months	Months	Months	Change	Change
	Ended	Ended	Ended	Ended		
	September	September	September	September		
	30, 2018	30, 2017	30, 2018	30, 2017		
Residential	88,358	90,109	234,852	239,331	(4,479)	-2%
Commercial	80,943	81,925	231,148	226,860	4,288	2%
Other (street lighting, etc.)	<u>1,529</u>	<u>1,713</u>	<u>4,992</u>	<u>5,120</u>	(128)	-3%
Total Sales	170,830	173,747	470,992	471,311	(319)	0%

Average Monthly Con	Average Monthly Consumption per Customer									
(kWh)	Three	Three	Nine	Nine	Change	%				
	Months	Months	Months	Months		Change				
	Ended	Ended	Ended	Ended						
	September	September	September	September						
	30, 2018	30, 2017	30, 2018	30, 2017						
Residential	1,171	1,219	1,042	1,083	(41)	-4%				
Commercial	69,441	62,827	65,018	57,925	7,093	12%				

## **Earnings**

Net earnings for Third Quarter 2018 totalled \$9.2 million, an increase of \$1.5 million when compared to net earnings of \$7.7 million for Third Quarter 2017. Net earnings for the nine months ended September 30, 2018 totalled \$18.9 million, an increase of \$0.6 million when compared to net earnings of \$18.3 million for the nine months ended September 30, 2017. The increase in net earnings for the three and nine months ended September 30, 2018 is attributable to higher electricity sales revenues and other income, and lower general and administration expenses. These items were partially offset by higher depreciation and transmission and distribution costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2018 were \$9.1 million, or \$0.27 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$7.6 million or \$0.23 per Class A Ordinary Share for the Third Quarter 2017.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the nine months ended September 30, 2018 were \$18.6 million, or \$0.56 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$18.0 million or \$0.55 per Class A Ordinary Share for the nine months ended September 30, 2017.

## **Operating Revenues**

Total operating revenues were as follows:

Revenues								
(\$ thousands)								
	Three	Three	Nine	Nine	Change	%		
	Months	Months	Months	Months		Change		
	Ended	Ended	Ended	Ended				
	September	September	September	September				
	30, 2018	30, 2017	30, 2018	30, 2017				
Residential	11,813	11,845	31,296	31,317	(21)	0%		
Commercial	11,336	10,730	31,959	30,156	1,803	6%		
Other (street lighting,								
etc.)	<u>196</u>	<u>161</u>	<u>555</u>	<u>490</u>	<u>65</u>	13%		
<b>Electricity Sales Revenues</b>	23,345	22,736	63,810	61,963	1,847	3%		
Fuel Factor Revenues	28,869	22,641	75,765	62,974	12,791	20%		
Renewables Revenues	<u>1,141</u>	<u>776</u>	<u>3,017</u>	<u>1,693</u>	<u>1,324</u>	78%		
Total Operating								
Revenues	53,355	46,153	142,592	126,630	15,962	13%		

Operating revenues for the Third Quarter 2018 were \$53.4 million, an increase of \$7.2 million from \$46.2 million for the Third Quarter 2017. Operating revenues for the nine months ended September 30, 2018 were \$142.6 million, an increase of \$16.0 million from \$126.6 million for the nine months ended September 30, 2017. The increase in operating revenues for the three and nine months ended September 30, 2018 was due to higher electricity sales revenues, fuel factor revenues and renewables revenues.

Other revenues (street lighting, etc.) for the Third Quarter 2018 totalled \$0.2 million, comparable to Third Quarter 2017 of \$0.2 million. Other revenues for the nine months ended September 30, 2018 totalled \$0.6 million, an increase of \$0.1 million when compared to \$0.5 million for the nine months ended September 30, 2017.

Electricity sales revenues were \$23.3 million for the Third Quarter 2018, an increase of \$0.6 million from \$22.7 million for the Third Quarter 2017. Electricity sales revenues for the Third Quarter 2018 increased when compared to the same period last year due to higher average base rates.

Electricity sales revenues were \$63.8 million for the nine months ended September 30, 2018, an increase of \$1.8 million from \$62.0 million for the nine months ended September 30, 2017.

Fuel factor revenues for the Third Quarter 2018 totalled \$28.9 million, an increase of \$6.3 million, compared to fuel factor revenues of \$22.6 million for the Third Quarter 2017. The average Fuel Cost Charge rate billed to consumers for the Third Quarter 2018 was \$0.18 per kWh, compared to the average Fuel Cost Charge rate of \$0.14 per kWh for the Third Quarter 2017. CUC passes through all fuel costs to consumers on a two-month lag basis with no markup.

Fuel factor revenues for the nine months ended September 30, 2018 totalled \$75.8 million, an increase of \$12.8 million compared to fuel factor revenues of \$63.0 million for the nine months ended September 30, 2017. Fuel factor revenues for the nine months ended September 30,

2018 increased when compared to the nine month period ended September 30, 2017 due to an increase in global oil prices.

Renewables revenues for the Third Quarter 2018 totalled \$1.1 million, an increase of \$0.3 million compared to renewables revenues of \$0.8 million for the Third Quarter 2017. The Company started to record renewables revenues in September 2017. The renewables revenues are a combination of charges from the Customer Owned Renewable Energy ("CORE") programme and Entropy Cayman Solar Limited ("Entropy") which are passed-through to consumers on a two-month lag basis with no mark-up. During 2015, the Company entered into a Power Purchase Agreement ("PPA") with Entropy for a 25-year term. This 5 MW solar project was completed in June 2017 and in July 2017 the solar farm launched production. Prior to the three months ending September 30, 2017, renewables revenues consisted solely of revenue from the CORE programme.

Renewables revenues for the nine months ended September 30, 2018 totalled \$3.0 million, an increase of \$1.3 million compared to renewables revenues of \$1.7 million for the nine months ended September 30, 2017.

## **Operating Expenses**

Operating expenses were as follows:

Operating Expenses									
(\$ thousands)									
	Three	Three	Nine	Nine	Change	%			
	Months	Months	Months	Months		Change			
	Ended	Ended	Ended	Ended					
	September	September	September	September					
	30, 2018	30, 2017	30, 2018	30, 2017					
Power Generation Expenses	30,974	24,252	81,653	67,203	14,450	22%			
General and Administration	1,819	2,442	5,880	6,696	(816)	-12%			
Consumer Service	796	764	2,201	2,448	(247)	-10%			
Transmission and									
Distribution	772	687	3,127	1,941	1,186	61%			
Depreciation	8,163	7,741	24,643	22,845	1,798	8%			
Maintenance	1,236	1,517	4,243	3,643	600	16%			
Amortization of Intangible									
Assets	<u>160</u>	<u>149</u>	<u>486</u>	<u>405</u>	<u>81</u>	20%			
<b>Total Operating Expenses</b>	43,920	37,552	122,233	105,181	17,052	16%			

Operating expenses for the Third Quarter 2018 totalled \$43.9 million, a \$6.3 million increase from \$37.6 million for the Third Quarter 2017. This increase was due primarily to higher power generation expenses and depreciation, partially offset by lower general and administration expenses and maintenance expenses for the Third Quarter 2018 when compared to the Third Quarter 2017.

Operating expenses for the nine months ended September 30, 2018 totalled \$122.2 million, a \$17.1 million increase from \$105.2 million for the nine months ended September 30, 2017. This increase was due primarily to higher power generation, depreciation and transmission and distribution expenses, partially offset by lower general and administration and consumer service expenses.

#### **Power Generation**

Power generation costs for the Third Quarter 2018 increased \$6.7 million to \$31.0 million when compared to \$24.3 million for the Third Quarter 2017. This increase is primarily a result of higher fuel costs.

Power generation costs for the nine months ended September 30, 2018 increased \$14.5 million to \$81.7 million when compared to \$67.2 million for the nine months ended September 30, 2017. This increase is primarily a result of higher fuel costs.

Power generation expenses were as follows:

Power Generation								
(\$ thousands) Fuel, Lubricating Oil and Renewables costs stated net of deferred charges								
	Three	Three Three Nine Nine Chang						
	Months	Months	Months	Months		Change		
	Ended	Ended	Ended	Ended				
	September	September	September	September				
	30, 2018	30, 2017	30, 2018	30, 2017				
Fuel costs (net of deferred fuel)	28,526	22,292	74,733	61,948	12,785	21%		
Lubricating Oil costs (net of								
deferred lubricating oil charges)	343	348	1,032	1,026	6	1%		
Renewables costs (net of								
deferred renewables costs)	1,141	776	3,017	1,693	1,324	78%		
Other generation expenses	<u>964</u>	<u>836</u>	<u>2,871</u>	<u>2,536</u>	<u>335</u>	13%		
Total Power Generation								
expenses	30,974	24,252	81,653	67,203	14,450	22%		

The Company's average cost per IG of fuel for the Third Quarter 2018 increased 27% to \$3.13, compared to \$2.46 for the Third Quarter 2017.

Total energy supplied to the grid for Third Quarter 2018 was 178.9 million kWh, a 2% decrease when compared to 182.2 million kWh for Third Quarter 2017. Net fuel efficiency for the Third Quarter 2018 of 18.82 kWh per IG decreased when compared to net fuel efficiency for the Third Quarter 2017 of 19.11 kWh per IG. The definition of Net Fuel Efficiency was revised as of January 1, 2018 to more accurately reflect the generating efficiency of the power generation facilities. The comparative values listed are both expressed using the most recent definitions.

Total energy supplied to the grid was 489.1 million kWh for the nine months ended September 30, 2018 compared to 491.0 million kWh for the nine months ended September 30, 2017. Net fuel efficiency for the nine months ended September 30, 2018 of 18.85 kWh per IG decreased when compared to net fuel efficiency for the nine months ended September 30, 2017 of 19.09 kWh per IG. This decrease in net fuel efficiency is due primarily to the utilization of less efficient units as other units are undergoing maintenance.

The Company's average cost per IG of lubricating oil for the Third Quarter 2018 increased to \$9.75 when compared to \$9.63 for the Third Quarter 2017. The Company's average price per IG of lubricating oil for the nine months ended September 30, 2018 increased to \$9.75 when compared to \$9.48 for the nine months ended September 30, 2017.

The Fuel Tracker Account is comprised of total diesel fuel, lubricating oil costs, and renewables costs to be recovered from consumers.

In March 2011, the OfReg approved the Fuel Price Volatility Management Program. The objective of the programme is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers for the fuel that the Company must purchase in order to provide electric service. Contracts initiated in 2017 and 2018 which remain outstanding at September 30, 2018, utilize call options and call spreads to promote transparency in pricing. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

Renewables costs for Third Quarter 2018 totalled \$1.1 million, an increase of \$0.3 million when compared to renewables costs of \$0.8 million for Third Quarter 2017. Renewables costs for the nine months ended September 30, 2018 totalled \$3.0 million, an increase of \$1.3 million when compared to renewables costs of \$1.7 million for the nine months ended September 30, 2017. The Company started to record renewables costs in September 2017. The renewables costs are a combination of charges from the CORE programme and Entropy Cayman Solar Limited which are passed-through to consumers on a two-month lag basis with no mark-up.

Other generation expenses for the Third Quarter 2018 totalled \$1.0 million, an increase of \$0.2 million when compared to other generation expenses of \$0.8 million for the Third Quarter 2017. Other generation expenses for the nine months ended September 30, 2018 totalled \$2.9 million, an increase of \$0.4 million when compared to other generation expenses of \$2.5 million for the nine months ended September 30, 2017.

## General and Administration ("G&A")

G&A expenses for the Third Quarter 2018 totalled \$1.8 million, a decrease of \$0.6 million when compared to the Third Quarter 2017 G&A expenses of \$2.4 million. This decrease is due mainly to the decrease in legal fees and an increase in General Expenses Capitalised ("GEC"), partially offset by an increase in cybersecurity costs and insurance costs. GEC totalled \$1.2 million for the Third Quarter 2018, an increase of \$0.1 million when compared to \$1.1 million for the Third Quarter 2017.

G&A expenses for the nine months ended September 30, 2018 totalled \$5.9 million, a decrease of \$0.8 million when compared to G&A expenses for the nine months ended September 30, 2017 of \$6.7 million. This decrease is due mainly to an increase in GEC and decreases in consultancy fees, insurance expenses, and legal fees, partially offset by an increase in payroll, employee medical insurance, and cybersecurity costs.

GEC totalled \$3.9 million for the nine months ended September 30, 2018, an increase of \$0.6 million when compared to \$3.3 million for the nine months ended September 30, 2017.

## Consumer Services ("CS")

CS expenses for the Third Quarter 2018 totalled \$0.8 million, comparable to \$0.8 million for the Third Quarter 2017. CS expenses for the nine months ended September 30, 2018 totalled \$2.2 million, a \$0.2 million decrease compared to \$2.4 million for the nine months ended September 30, 2017. This decrease is primarily attributable to decreased provisions for bad debts recorded during the nine months ended September 30, 2018.

In accordance with its Allowance for Doubtful Accounts ("AFDA") policy, the Company maintains an accumulated provision for uncollectible customer accounts receivable that is estimated based on known accounts, historical experience and other currently available information, including the economic environment.

Trade and other accounts receivable		
(\$ thousands)		
	As at September 30, 2018	As at December 31, 2017
Current	10,455	5,628
Past due 31-60 days	436	556
Past due 61-90 days	398	504
Past due over 90 days	<u>4,135</u>	<u>5,069</u>
Total Accounts Receivable	15,424	11,757
Less: Allowance for doubtful accounts	(2,381)	(2,238)
Less: Consumer Deposits	(9,083)	(8,433)
Trade receivables less allowance for doubtful accounts and		
consumer deposits	3,960	1,086

Trade receivables less allowance for doubtful accounts and consumer deposits as at September 30, 2018 totalled \$4.0 million, an increase of \$2.9 million, or 263% when compared to \$1.1 million as at December 31, 2017. This increase was primarily related to an increase in current receivables which was partially offset by a reduction in past due receivables and an increase in consumer deposits.

## Transmission and Distribution ("T&D")

T&D expenses for the Third Quarter 2018 totalled \$0.8 million, an increase of \$0.1 million when compared to T&D expenses for the Third Quarter 2017 of \$0.7 million.

T&D expenses for the nine months ended September 30, 2018 totalled \$3.1 million, an increase of \$1.2 million compared to T&D expenses for the nine months ended September 30, 2017 of \$1.9 million. T&D expenses for the nine months ended September 30, 2018 were impacted by an increase in the T&D department's payroll costs, employee benefits costs and higher line maintenance materials costs.

## Depreciation of Property, Plant and Equipment ("PP&E")

Depreciation expenses for the Third Quarter 2018 totalled \$8.2 million, an increase of \$0.5 million from \$7.7 million for the Third Quarter 2017. Depreciation expenses for the nine months ended September 30, 2018 totalled \$24.6 million, an increase of \$1.8 million, from \$22.8 million for the nine months ended September 30, 2017.

The increase in depreciation expenses is due to capital projects completed in prior periods.

#### Maintenance

Maintenance expenses for the Third Quarter 2018 totalled \$1.2 million, a decrease of \$0.3 million from Third Quarter 2017 maintenance expenses of \$1.5 million. The decrease is mainly due to a reduction in computer maintenance costs.

Maintenance expenses for the nine months ended September 30, 2018 totalled \$4.2 million, an increase of \$0.6 million from \$3.6 million for the nine months ended September 30, 2017. This increase was mainly due to a lower portion of the scheduled maintenance for the nine months ended September 30, 2018 was of a capital nature than what was experienced during the same period last year. Certain types of major maintenance result in improvements to the life of the equipment and therefore the costs of such maintenance are capitalised. The increase was also due to an increase in generator maintenance materials.

### **Amortization**

Amortization of intangible assets for the Third Quarter 2018 totalled \$0.2 million, an increase of \$0.1 million when compared to Third Quarter 2017 expenses of \$0.1 million.

Amortization of intangible assets for the nine months ended September 30, 2018 totalled \$0.5 million, an increase of \$0.1 million when compared to \$0.4 million for the nine months ended September 30, 2017.

Amortization represents the monthly recognition of the expense associated with software purchases as well as other intangible assets such as the costs associated with the licence negotiations. The negotiations for the Company's electricity licence concluded in 2008 and the costs associated with the negotiations are being amortized over 20 years on a straight-line basis. The negotiations associated with DataLink's ICT licence ceased in 2012 and these costs are being amortized over 15 years on a straight-line basis.

## Other Income and Expenses

Net Other Expenses for the Third Quarter 2018 totalled \$0.3 million, a decrease of \$0.6 million when compared to \$0.9 million for the Third Quarter 2017. Net Other Expenses for the nine months ended September 30, 2018 totalled \$1.5 million, a decrease of \$1.6 million from \$3.1 million for the nine months ended September 30, 2017.

Other Income & Expenses						
(\$ thousands)						
	Three Months Ended September	Three Months Ended September	Nine Months Ended September	Nine Months Ended September	Change	% Change
	30, 2018	30, 2017	30, 2018	30, 2017		
Total interest costs	(3,298)	(3,324)	(9,938)	(9,681)	(257)	3%
AFUDC	<u>1,516</u>	<u>1,239</u>	<u>3,978</u>	<u>3,220</u>	<u>758</u>	24%
Total finance charges	(1,782)	(2,085)	(5,960)	(6,461)	501	-8%
Foreign exchange gain	451	383	1,524	996	528	53%
Other income	<u>1,077</u>	<u>808</u>	<u>2,965</u>	2,317	<u>648</u>	28%
Total Net Other Expense	(254)	(894)	(1,471)	(3,148)	1,677	-53%

Finance charges for the Third Quarter 2018 totalled \$1.8 million, a \$0.3 million decrease from \$2.1 million for the Third Quarter 2017. This decrease is as a result of higher Allowance for Funds Used During Construction ("AFUDC") in Third Quarter 2018.

Finance charges for the nine months ended September 30, 2018 totalled \$6.0 million, a \$0.5 million decrease from \$6.5 million for the nine months ended September 30, 2017. This decrease is as a result of higher AFUDC, partially offset by higher overdraft interest, and interest on long and short term debt for the nine month period ended September 30, 2018.

Under the T&D Licence there is a provision for an AFUDC. This capitalisation of the financing cost is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for 2018 is 8.0% (2017: 7.75%) as agreed with the OfReg, in accordance with the T&D Licence, and will be reviewed annually.

The AFUDC amount for the Third Quarter 2018 totalled \$1.5 million, an increase of \$0.3 million from \$1.2 million for the Third Quarter 2017. The AFUDC amount for the nine months ended September 30, 2018 totalled \$4.0 million, an increase of \$0.8 million from \$3.2 million for the nine months ended September 30, 2017. This increase was attributable to higher capital expenditure, driven primarily by a higher average of work in progress capital projects for the three and nine month periods ended September 30, 2018.

Foreign exchange gains and losses are the result of monetary assets and liabilities denominated in foreign currencies that are translated into United States dollars at the exchange rate prevailing on the Balance Sheet date. Revenue and expense items denominated in foreign currencies are translated into United States dollars at the exchange rate prevailing on the transaction date.

Foreign exchange gains for the Third Quarter 2018 totalled \$0.5 million, a \$0.1 million increase when compared to \$0.4 million in the Third Quarter 2017. Foreign exchange gains for the nine months ended September 30, 2018 totalled \$1.5 million, a \$0.5 million increase when compared to \$1.0 million for the nine months ended September 30, 2017.

Other income is comprised of income from the third party customers of DataLink, income from pipeline operations, sale of meter sockets, sale of recyclable materials, performance rewards as part of the T&D Licence and other miscellaneous income. Performance standards as prescribed by the T&D Licence provide a balanced framework of potential penalties or rewards compared to historical performance in the areas of planning, reliability, operating and overall performance. Standards include "zones of acceptability" where no penalties or rewards would apply.

Other income totalled \$1.1 million for the Third Quarter 2018, an increase of \$0.3 million from \$0.8 million for the Third Quarter 2017. Other income totalled \$3.0 million for the nine months ended September 30, 2018, a \$0.7 million increase when compared to other income of \$2.3 million for the nine months ended September 30, 2017. This increase is mainly due to the miscellaneous revenue and reconnection fees recorded by the Company and a performance penalty which was recorded in Second Quarter 2017.

Revenues from DataLink for the Third Quarter 2018 are recorded in Other Income in the amount of \$0.4 million, a \$0.1 million increase when compared to \$0.3 million for the Third Quarter 2017.

Revenues from DataLink for the nine month period ended September 30, 2018 are recorded in Other Income in the amount of \$1.1 million, an increase of \$0.1 million when compared to \$1.0 million for the nine month period ended September 30, 2017.

## The Economy

In October 2018, the Cayman Islands Government released the second quarter 2018 Consumer Price Index ("CPI") Report. The average CPI for June 2018 increased 4.8% from the average CPI in June 2017. In comparison to the quarter ending March 2018, CPI increased by 1.7%. Of the 12 divisions monitored in the CPI calculation, three divisions saw price declines in the second quarter of 2018 compared to the quarter ending March 2018: clothing and footwear, furnishings, household equipment and routine household maintenance and restaurants and hotels. The divisions with the largest increases were: transport, communication, and recreation and culture.

The First Quarter Economic Report from the Cayman Islands Economics and Statistics office ("ESO") that was released in October 2018 shows overall economic activity in the Cayman Islands grew by an estimated 4.0% for the first three months of 2018. According to the report, hotels and restaurants, construction, transport, storage and communication, legal and accounting, wholesale and retail trade, repair and installation of machinery led the growth, and growth rates were indicated for a number of other sectors including producers of government services, mining and quarrying, manufacturing, other services and financing and insurance services. The ESO is forecasting Annual Gross Domestic Product ("GDP") growth of 3.0% for 2018. The Company's annual sales growth and resource requirements, including number of employees, have historically been heavily influenced by changes in the level of economic activity in the country as illustrated by the GDP.

Financial services is one of the two main industries of the Cayman Islands. The table below itemises trends in some of the key financial areas:

Indicators for the Financial Services Industry									
(numbers)	As at As at September December D		As at As at December		As at December				
	30, 2018	31, 2017	31, 2016	31, 2015	31, 2014				
Bank Licences	146	150	159	184	198				
Mutual Funds	10,889	10,559	10,586	10,940	11,010				
Mutual Fund Administrators	92	97	106	108	115				
Registered Companies	106,291	99,327	96,248	98,838	99,459				
Captive insurance companies	727	724	740	739	788				

The tourism sector is the second main pillar of the Cayman Islands economy. The Cayman Islands tourism demographic is largely comprised of visitors from the United States of America ("US"). For 2017 81% of air arrivals to the country were citizens of the US. As such the US economy has a large impact on the economy of the Cayman Islands.

Third Quarter 2018 air arrivals increased by 4% when compared to 2017 and cruise arrivals saw an increase of 17% when compared to the same period in 2017. Air arrivals have a direct impact on the Company's sales growth as these visitors are stay-over visitors who occupy local accommodation services. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

The following table presents statistics for tourist arrivals in the Cayman Islands for the three months ending September 30:

Tourist Arrivals to	the Cayman Islands	;			
(numbers)	2018	2017	2016	2015	2014
By Air	97,383	93,875	85,957	81,974	83,161
By Sea	<u>353,793</u>	<u>301,109</u>	<u>306,931</u>	<u>302,116</u>	<u>313,598</u>
Total	451,176	394,984	392,888	384,090	396,759

The tourism industry is expected to be positively impacted by the expansion of the Owen Roberts International Airport in Grand Cayman. The expansion is expected to be completed in 2018 and it is anticipated that the airport should accommodate the projected growth in air arrivals. The airport will provide a vastly improved airlift service for Grand Cayman's tourists. The new design expands the current facility, features a larger terminal which accommodates the projected growth in air arrivals. In addition to the airport expansion, the tourism sector is expected to receive a boost by the new 351-room Grand Hyatt Grand Cayman Hotel and Residences resort on Seven Mile Beach which is expected to open in 2020. The resort includes six cafes and restaurants, a spa and fitness center, three swimming pools, shops and a private screening room. It will also have 25,000 square feet of indoor meeting and event space, making it the largest function space in the Cayman Islands. Both projects are likely to create additional employment opportunities and increase stay over tourism.

All data is sourced from the Cayman Islands Government, Cayman Islands Economics & Statistics Office, Cayman Islands Monetary Authority, and Cayman Islands Department of Tourism; <a href="www.gov.ky">www.gov.ky</a> <a href="www.gov.ky</a> <a href="www.gov.ky</a> <a href="www.gov.ky</a> <a href="www.gov.ky</a> <a href="www.cimoney.com.ky">www.cimoney.com.ky</a> <a href="www.uisitcaymanislands.com">www.uisitcaymanislands.com</a> <a href="www.gov.ky</a> <a href="www.gov.ky</a> <a href="www.cimoney.com.ky">www.cimoney.com.ky</a> <a href="www.uisitcaymanislands.com">www.uisitcaymanislands.com</a> <a href="www.uisitc

Liquidity

The following table outlines the summary of the Company's cash flows:

Cash Flows						
(\$ thousands)						
	Three	Three	Nine	Nine	Change	%
	Months	Months	Months	Months		Change
	Ended	Ended	Ended	Ended		
	September	September	September	September		
	30, 2018	30, 2017	30, 2018	30, 2017		
Beginning cash	6,544	21,770	7,258	9,861	(2,603)	-26%
Cash provided						
by/(used in):						
Operating activities	17,409	15,711	40,949	38,227	2,722	7%
Investing activities	(10,931)	(9,951)	(34,312)	(33,191)	(1,121)	3%
Financing activities	<u>(7,505)</u>	<u>(4,782)</u>	<u>(8,378)</u>	<u>7,851</u>	(16,229)	-207%
Ending cash	5,517	22,748	5,517	22,748	(17,231)	-76%

## Operating Activities:

Cash flow provided by operations, after working capital adjustments, for the Third Quarter 2018, was \$17.4 million, a \$1.7 million increase when compared to \$15.7 million for the Third Quarter 2017. This increase is primarily attributable to the movement in regulatory deferrals, accounts payable and customer deposits in the Third Quarter 2018 when compared to the same period last year.

Cash flow provided by operations, after working capital adjustments, for the nine months ended September 30, 2018 was \$41.0 million, a \$2.8 million increase when compared to \$38.2 million for the nine months ended September 30, 2017. This increase is primarily attributable

to the movement in accounts payable and customer deposits for the period partially offset by the movement in accounts receivable for the nine month period ending September 30, 2018 when compared to the same period last year.

## *Investing Activities:*

Cash used in investing activities for the Third Quarter 2018 totalled \$10.9 million, an increase of \$0.9 million from \$10.0 million for the Third Quarter 2017. This increase is due mainly to higher expenditures related to PP&E, partially offset by Contributions in Aid of Construction for the Third Quarter 2018 when compared to the Third Quarter 2017.

Cash used in investing activities for the nine months ended September 30, 2018 totalled \$34.3 million, an increase of \$1.1 million from \$33.2 million for the Third Quarter 2017. This increase is due mainly to higher expenditures related to PP&E, partially offset by Contributions in Aid of Construction.

## Financing Activities:

Cash used in financing activities for the Third Quarter 2018 totalled \$7.5 million, an increase of \$2.7 million compared to cash used in financing activities of \$4.8 million for the Third Quarter 2017. This increase in cash used in financing activities is primarily attributable to a decrease in bank overdraft, net proceeds from share issues and an increase in dividends paid to shareholders.

Cash used in financing activities for the nine months ended September 30, 2018 totalled \$8.4 million, a decrease of \$16.3 million compared to cash provided by financing activities of \$7.9 million for the nine months ended September 30, 2017. This decrease in cash provided by financing activities is attributable to higher proceeds from debt financing and shares issued in 2017, when compared to 2018.

## Cash Flow Requirements:

The Company expects that operating expenses and interest costs will generally be paid from the Company's operating cash flows, with residual cash flows available for capital expenditures and dividend payments. Borrowings under credit facilities may be required from time to time to support seasonal working capital requirements. Cash flows required to complete planned capital expenditures are expected to be financed from a combination of proceeds from operating cash, debt and equity transactions. The Company expects to be able to source the cash required to fund its 2018 capital expenditure programme (see the "Business Risks" section of this MD&A for Liquidity Risk details).

## Transactions with Related Parties

Related-party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The related-party transactions for 2018 and 2017 are summarized in the following table.

Related Party Transactions		
	As at	As at
	September	December
(in thousands)	30, 2018	31, 2017
Receivables from Newfoundland Power (a subsidiary of Fortis Inc.)	4	4
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	-	17
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	<u>14</u>	<u>49</u>
Total Related Party Receivables	18	70
Payables to Fortis TCI (a subsidiary of Fortis Inc.)	27	-
Payables to Fortis Inc. (the company's majority shareholder)	7	5
Payables to Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	=	<u>2</u>
Total Related Party Payables	34	7

Related party receivables and payables include but are not limited to travel expenses, hurricane preparedness, membership fees and insurance premiums.

## **Contractual Obligations**

The contractual obligations of the Company over the next five years and periods thereafter, as at September 30, 2018, are outlined in the following table:

Contractual Obligations						
(\$ thousands)						
	Total	< 1 year	1 to 3	4 to 5	> 5	
			years	years	years	
Total debt <sup>1</sup>	259,285	12,714	31,987	30,753	183,831	
Long-term debt interest	<u>114,293</u>	<u>12,130</u>	<u>21,656</u>	<u>17,869</u>	<u>62,638</u>	
Total	373,578	24,844	53,643	48,622	246,469	

<sup>1.</sup> Relates to principal payments on long-term debt only.

## Power Purchase Obligation

During 2015, the Company entered into a Power Purchase Agreement ("PPA") with Entropy Cayman Solar Limited which will provide a minimum generated energy of 8.8 gigawatt hours ("GWh") per year for a 25-year term. This 5 MW solar project was completed in June 2017. It is expected to significantly reduce emissions into the atmosphere through the avoidance of diesel fuel consumption. The PPA also provides renewable energy at a competitive initial price of \$0.17 (presently \$0.173) cents per kWh. The PPA qualifies for the Normal Purchase Normal Sale exemption under Accounting Standards Codification ("ASC") 815 and does not qualify as a derivative.

## Fuel Purchase Obligation

The Company has a primary fuel supply contract with RUBiS Cayman Islands Limited ("RUBiS"). Under the agreement, the Company is committed to purchase approximately 60% of its diesel fuel requirements for its generating plant from RUBiS. The Company also has a secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") and is committed

to purchase approximately 40% of the Company's fuel requirements for its generating plant from Sol. The Company executed 24 month fuel supply contracts in June 2018 upon the expiration of its previous fuel supply contract with both RUBiS and Sol, with the option to renew for two additional terms of 18 months at the end of the term. The approximate remaining quantities per the fuel contract with RUBiS on an annual basis are, by fiscal year in millions of IGs: 2018 - 5.0, 2019 - 21.3 and 2020 - 8.9. The approximate remaining quantities per the fuel contract with Sol on an annual basis are, by fiscal year in millions of IGs: 2018 - 3.4, 2019 - 14.0 and 2020 - 6.0. Both contracts qualify for the Normal Purchase Normal Sale exemption under ASC 815 and do not qualify as derivatives.

## **Financial Position**

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2017 to September 30, 2018:

Significant changes in Balance S	heet	
(from December 31, 2017 to Septen	nber 30, 2018)	
D.L. Cl. 14	Increase/ (Decrease) (\$	
Balance Sheet Account	thousands)	Explanation
Cash and Cash Equivalents	(1,741)	Decrease due to cash provided by operating activities of \$41.0 million and partially offset by cash used in investing activities of \$34.3 million and cash used in financing activities of \$8.4 million.
Accounts Receivable	3,524	An increase in CUC's receivables of \$4.8 million, which was partially offset by decreases of \$0.6 million of miscellaneous billings and \$0.7 million of DataLink receivables.
Regulatory Assets	3,983	Increase due to higher fuel costs and regulatory asset recorded in June 2018 for the demand rate billing.
Prepayments	1,163	Increase due to the timing of expense recognition.
Property, Plant and Equipment	9,127	Net increase is comprised of (1) capital expenditures of \$34.5 million (2) depreciation expense of \$24.6 million and (3) \$1.3 million in accrued capital expenditure and (4) \$2.1 million in funds received in aid of construction.
Accounts Payable and Accrued Expenses	4,223	Increase attributable to increases in fuel costs payable which were partially offset by decreases in capital expenditure accruals and decrease in restricted cash.
Short Term Debt	20,000	Increase due to drawdown of Scotiabank capital expenditure facility in May 2018.
Current Portion of Long Term Debt	(4,000)	Decrease due to full repayment of Company's 5.09% Unsecured Note Loan in June 2018.
Consumers' Deposits and Advances for Construction	1,010	Increase due to additional customer deposits of \$0.6 million and increase in advances received for construction of \$0.4 million.
Long-Term Debt	(9,612)	Decrease due to principal payments made on the Company's Senior Unsecured Notes in the Second Quarter 2018.
Share Premium	2,187	The Company issued 166,121 shares through its share purchase plans.
Retained Earnings	1,363	Increase due to net earnings for the period of \$18.9 million offset by Class A dividends of \$17.2 million and Class B dividends of \$0.3 million.

## **Capital Resources**

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

To ensure access to capital, the Company targets a long-term capital structure of approximately 45% equity, including preference shares, and 55% debt. The Company's objective is to maintain investment-grade credit ratings. The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the recent rights offering and the Company's share purchase plans.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 60% of the Company's consolidated capital structure, as defined by short-term and long-term debt agreements. As at September 30, 2018, the Company was in compliance with all debt covenants.

The Company's capital structure is presented in the following table:

Capital Structure				
	September 30, 2018 (\$ thousands)	%	December 31, 2017 (\$ thousands)	%
Total debt	277,984	55	271,596	55
Shareholder's equity	<u>228,005</u>	<u>45</u>	<u>224,423</u>	<u>45</u>
Total	505,989	100	496,019	100

The change in the Company's capital structure between December 31, 2017 and September 30, 2018 was driven by an increase in equity resulting from the issuance of Class A Ordinary Shares under its share purchase plans and an increase in Short Term Debt.

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

S&P A-/ Negative DBRS A (low)

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

In August 2018, S&P affirmed the Company's "A-" rating with a negative outlook; the negative outlook on the Company reflects that of Fortis Inc. (the company's majority shareholder). The negative outlook is based on S&P's view of a modest weakening to Fortis' credit metrics following the U.S. corporate tax reform. Despite the moderately strategic relationship between CUC and Fortis, on a standalone basis, CUC is expected to continue to generate stable and predictable cash flows, as the sole provider of generation and T&D services to Grand Cayman.

In January 2018, DBRS affirmed the Company's "A" credit rating while maintaining the categorisation of low with a Stable trend. Considerations for the rating were a supportive

regulatory regime that allows the Company to earn good returns on its rate base, solid credit metrics and a stable island economy and the demand for electricity. Ratings were impacted by factors such as hurricane event risk and the small size of the Company's customer base.

#### **Credit Facilities**

The Company currently has \$50.0 million of unsecured credit financing facilities with Scotiabank & Trust (Cayman) Limited ("Scotia") and Royal Bank of Canada ("RBC"). The financing facilities are comprised of:

Credit Facilities	(\$ millions)
Provided by Scotia:	
Letters of Credit	\$1.0
Operating, Revolving Line of Credit	\$10.0
Catastrophe Standby Loan	\$7.5
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>\$31.0</u>
Total	\$49.5
Provided by RBC:	
Corporate Credit Card Line	<u>\$0.5</u>
Total	\$0.5

Of the total above, \$28.3 million was available at September 30, 2018.

## **Capital Expenditures**

Capital expenditures for the three months ended September 30, 2018 were \$11.8 million, a \$0.8 million, or 7% increase from \$11.0 million in capital expenditures for the three months ended September 30, 2017.

Capital expenditures for the nine months ended September 30, 2018 were \$34.5 million, a \$0.2 million, or 1% increase from \$34.3 million in capital expenditures for the nine months ended September 30, 2017. The capital expenditures for the nine months ended September 30, 2018 primarily relate to:

- Distribution system extension and upgrades \$12.9 million.
- Generation Replacement Cost \$7.0 million
- Prospect 69/13 KV Substation \$3.0 million
- SCADA & Substation Automation \$1.6 million
- LED Lighting Replacement \$1.4 million
- Engine Room Upgrades \$1.0 million
- Seven Mile Beach 69/13 KV Substation \$0.6 million
- Auxiliary Asset Replacement & Upgrade \$0.7 million.
- Facility Asset Replacement & Upgrades Structural & Mechanical- \$0.5 million

AFUDC of \$3.9 million was capitalized in the nine months ended September 30, 2018

Capital expenditures				
(\$ thousands)				
	Three	Three	Nine	Nine
	<b>Months Ended</b>	<b>Months Ended</b>	<b>Months Ended</b>	<b>Months Ended</b>
	September	September	September	September
	30, 2018	30, 2017	30, 2018	30, 2017
Transmission	2,414	873	7,832	2,751
Distribution	4,456	5,324	14,176	16,166
Generation	4,081	3,769	11,094	13,279
Other	<u>818</u>	<u>1,008</u>	<u>1,416</u>	<u>2,097</u>
Total	11,769	10,974	34,518	34,293

## **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 has no such off-balance sheet arrangements as at September 30, 2018.

#### **Business Risks**

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

### Operational Risks

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

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

## **Economic Conditions**

The general economic condition of CUC's service area, Grand Cayman, influences electricity sales as with most utility companies. Changes in consumer income, employment and housing

are all factors in the amount of sales generated. As the Company supplies electricity to all hotels and large properties, its sales are therefore partially based on tourism and related industry fluctuations.

## Regulation

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

### Weather

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

## **Environmental Matters**

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

CUC's Environmental Management System ("EMS") is registered to the ISO 14001 Environmental Standard. The Company was initially registered in 2004, pursuant to an audit by a third party of the Company's EMS to ensure that the Company was meeting requirements put in place by the Government as well as self-imposed requirements. Under the ISO 14001 standard companies are required to establish, document, implement, maintain and continually improve their environmental performance with an aim of prevention of pollution. In order to maintain the Company's registration to this standard an external surveillance audit is conducted annually, and an external audit is conducted every three years for re-certification. Internal audits of the system must also be conducted on an annual basis. CUC has most recently conducted, and passed its re-certification audit in March 2018.

In May 2002, the United Kingdom ("UK") ratified the Kyoto Protocol, which sets targets and timetables for the reduction of greenhouse gas (GHG) emissions, which was later extended to the Cayman Islands in March 2007. Under the Kyoto Protocol, the UK is legally bound to reduce its GHG emissions, but Cayman has no emissions reduction target. As an overseas territory, the Cayman Islands are required to give available national statistics on an annual basis to the UK which will be added to its inventory and reported to the United Nations Framework Convention on Climate Change Secretariat. Under the Convention governments are obligated to gather and report information on GHG emissions through the preparation of a national greenhouse gas inventory. The inventory primarily requires the Cayman Islands to quantify as best as possible the country's fuel consumption across a variety of sectors, production

processes and distribution means. CUC continues to supply the Department of Environment with data for Cayman's GHG inventory.

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

## Insurance - Terms and Coverage

The Company renewed its insurance policy as at July 1, 2018 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include \$100.0 million in property and machinery breakdown insurance and business interruption insurance per annum with a 24-month indemnity period and a waiting period on Non-Named Wind, Quake and Flood of 60-days. Any named Wind, Quake and Flood deductible has a 45-day waiting period. All T&D assets outside of 1,000 feet from the boundaries of the main power plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$1.0 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1.0 million and maximum deductible of \$4.0 million for all interests combined.

In accordance with the T&D Licence, when an asset is impaired or disposed of within its original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with rate regulated accounting and differs from the GAAP treatment of a loss being recognised on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. Insurance proceeds are included within the criteria.

In addition to the coverage discussed above, the Company has also purchased an excess layer of an additional \$150.0 million limit on property and business interruption (excluding windstorm, earth movement and flood).

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

## Defined Benefit Pension Plan

The Company maintains a defined benefit pension plan, which provides a specified monthly benefit on retirement irrespective of individual investment returns. The assumed long-term rate of return on pension plan assets for the purposes of estimating pension expense for 2018 is 5%. This compares to assumed long-term rates of return of 5% used during 2017. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The gain on pension plan assets during 2017 was 6% (2016: loss of 1%).

Market driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the assumed return on the assets, causing material changes in consolidated pension expense and funding requirements. Net pension expense is impacted by, among other things, the amortization of experience and

actuarial gains or losses and expected return on plan assets. Market driven changes impacting other pension assumptions, including the assumed discount rate, may also result in future consolidated contributions to pension plans that differ significantly from current estimates as well as causing material changes in consolidated pension expense. The discount rate assumed for 2018 is 3.7% compared to the discount rate assumed during 2017 of 4.3%.

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

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

## Financial Instruments

The Company is primarily exposed to credit risk, liquidity risk and interest rate risk as a result of holding financial instruments in the normal course of business. Financial instruments of the Company consist mainly of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, consumers' deposits and advances for construction and long-term debt.

#### Credit Risk

The Company is exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments which include fuel option contracts. If a counterparty fails to perform on its contractual obligation to deliver payment when the market price of fuel is greater than the strike price, the Company may find it necessary to purchase diesel at the market price, which will be higher than the contract price. The Company manages this credit risk associated with counterparties by conducting business with high credit-quality institutions. The Company does not expect any counterparties to fail to meet their obligations.

There is risk that the Company may not be able to collect all of its accounts receivable and other assets. This does not represent a significant concentration of risk. The requirements for security deposits for certain customers, which are advance cash collections from customers to guarantee payment of electricity billings, reduces the exposure to credit risk. The Company manages credit risk primarily by executing its credit collection policy, including the requirement for security deposits, through the resources of its customer service department.

## Liquidity Risk

The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by the legal requirement under the Licences which requires rates be set to enable the Company to achieve and maintain a sound credit rating in the financial markets of the world. The Company has also secured committed credit facilities to support short-term financing of capital expenditures and seasonal working capital requirements. The cost of renewed and extended credit facilities could increase in the future;

however, any increase in interest expense and fees is not expected to materially impact the Company's consolidated financial results in 2018.

## Interest Rate Risk

Long-term debt is issued at fixed interest rates, thereby minimizing cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings is \$20 million (2017: \$nil).

## **Changes in Accounting Policies**

The Consolidated Interim Financial Statements have been prepared following the same accounting policies and methods as those used to prepare the Company's 2017 annual audited consolidated financial statements, except as described below.

## Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and requires additional disclosures. The Company adopted the new standard using the modified retrospective approach, under which comparative periods are not restated and the cumulative impact is recognized at the date of adoption supplemented by additional disclosures (Note 5). Upon adoption, there were no adjustments to the opening balance of retained earnings.

The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by OfReg. The adoption of this standard does not change the Company's revenue recognition policy and does not have an impact on net earnings.

Operating Revenues				
	Three Months	Three Months	Nine Months	Nine Months
	Ended	Ended	Ended	Ended
	September	September 30,	September	September 30,
(\$ thousands)	30, 2018	2017	30, 2018	2017
<b>Electricity Sales Revenues</b>				
Residential	11,813	11,845	31,296	31,317
Commercial	11,336	10,730	31,959	30,156
Other (street lighting etc.)	<u>196</u>	<u>161</u>	<u>555</u>	<u>490</u>
<b>Total Electricity Sales Revenues</b>	23,345	22,736	63,810	61,963
Fuel Factor	28,869	22,641	75,765	62,974
Renewables	1,141	776	3,017	1,693
<b>Total Operating Revenues</b>	53,355	46,153	142,592	126,630

## Electricity Sales revenue

The Company generates, transmits and distributes electricity to residential and commercial customers and for street lighting service. Electricity is metered upon delivery to customers and recognized as revenue using OfReg approved rates when consumed. Meters are read on the last day of each month, and bills are subsequently issued to customers based on these

readings. As a result, the revenue accruals for each period are based on actual bills-rendered for the reporting period.

## Fuel Factor

Fuel Factor revenues consist of charges from diesel fuel and lubricating oil costs which are passed through to consumers on a two-month lag basis with no mark-up.

#### Renewables

Renewables revenues are a combination of charges from the CORE program and Entropy which are passed through to consumers on a two-month lag basis with no mark-up.

## **FUTURE ACCOUNTING POLICIES**

The Company considers the applicability and impact of all Accounting Standards Updates ("ASU") issued by the Financial Accounting Standards Board ("FASB"). The following updates have been issued by FASB, but have not yet been adopted by the Company. Any ASUs not included below were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the consolidated financial statements.

### Leases

ASU No. 2016-02, *Leases (ASC Topic 842)*, was issued in February 2016, is effective for the Company on January 1, 2019 with earlier adoption permitted, and is to be applied using a modified retrospective approach with practical expedient options. Principally, it requires balance sheet recognition of a right-of-use asset and a lease liability by lessees for those leases that are classified as operating leases along with additional disclosures.

The Company plans to select the optional transition method which allows entities to continue to apply the current lease guidance in the comparative periods presented in the year of adoption and apply the transition provisions of the new guidance on the effective date of the new guidance. CUC will elect a package of practical expedients that allows it to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. The Company also will elect an additional practical expedient that permits entities to not evaluate existing land easements that were not previously accounted for as leases.

Based on CUC's assessment to date, leasing activities accounted for as operating leases primarily relate to office facilities. The Company currently has a five year term lease for office space. This lease will expire on June 30, 2019. Ongoing implementation efforts include the evaluation of business processes and controls to support recognition and disclosure under the new standard and preparation of expanded disclosures. The Company continues to assess the impact of adoption and monitor standard-setting activities that may affect transition requirements.

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016, is effective for the Company on January 1, 2021 and is to be applied on a modified

retrospective basis. The Company intends to early adopt on January 1, 2020. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. The Company is assessing the impact of adoption.

Targeted Improvements to Accounting for Hedging Activities

ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, was issued in August 2017, is effective for the Company on January 1, 2019 with earlier adoption permitted and is to be applied as of the beginning of the fiscal year of adoption. Principally, it better aligns risk management activities and financial reporting for hedging relationships through changes to designation, measurement, presentation and disclosure guidance. For cash flow and net investment hedges existing at the date of adoption, the amendments should be applied as a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to opening retained earnings. Amended presentation and disclosure guidance is to be applied prospectively. The adoption of this ASU will not have a material impact on the consolidated financial statements and related disclosures.

## **Critical Accounting Estimates**

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

## Revenue Recognition

The completion of the AMI meter change-out project allows for all customer meters to be read on the same date, during the Second Quarter 2017 the Company amended its billing processes to have all meters read on the last day of each month. As a result Revenues/kWhs recorded as at September 30, 2018 are based upon actual bills-rendered during the period.

Prior to May 2017, revenue was derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at September 30, 2018, the amount of unbilled revenue recorded in Electricity Sales was \$nil (September 30, 2017: nil).

# Kilowatt Hour ("kWh") Sales

KWh sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. The kWh accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for electricity consumption will result in adjustments of kWh sales statistics in the periods they become known when actual results differ from the estimates. As at September 30, 2018, the amount of estimated kWh sales was nil (September 30, 2017: nil).

# **Employee Future Benefits**

The Company's defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation. There are currently two participants in the Company's defined benefit pension plan. The main assumptions utilized by Management in determining pension expense and obligations were the discount rate for the accrued benefit obligation, pension commencement date, inflation and the expected rate of return on plan assets. As at September 30, 2018, the Company has a long term liability of \$1.2 million (December 31, 2017: \$1.3 million).

#### PP&E and Depreciation

Depreciation is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at September 30, 2018, the net book value of the Company's PP&E was \$497.4million compared to \$488.3 million as at December 31, 2017, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the nine months ended September 30, 2018 was \$24.6 million (\$22.8 million for the nine months ended September 30, 2017). Due to the value of the Company's PP&E, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

#### **Quarterly Results**

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended December 31, 2016 through September 30, 2018. This information has been obtained from CUC's unaudited interim Financial Statements which, in the opinion of Management, have been prepared in accordance with US GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarterly results (\$ thousands, except basic and diluted earnings per ordinary share)						
	Operating Revenue	Net Earnings	Earnings on Class A Ordinary Shares	Earnings per Class A Ordinary Share	Diluted earnings per Class A Ordinary Share	
September 30, 2018	53,355	9,181	9,068	0.27	0.27	
June 30, 2018	47,763	7,042	6,929	0.21	0.21	
March 31, 2018	41,474	2,665	2,552	0.08	0.08	
December 31, 2017	44,311	5,475	4,862	0.15	0.15	
September 30, 2017	46,153	7,707	7,594	0.23	0.23	
June 30, 2017	42,159	6,136	6,023	0.19	0.19	
March 31, 2017	38,319	4,461	4,348	0.13	0.13	
December 31, 2016	41,181	5,368	4,760	0.15	0.15	

## September 2018/September 2017

Net earnings for the Third Quarter 2018 totaled \$9.2 million, an increase of \$1.5 million when compared to net earnings of \$7.7 million for the Third Quarter 2017. The increase is attributable to higher electricity sales revenues and other income, and lower general and administration expenses. These items were partially offset by higher depreciation and transmission and distribution costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2018 were \$9.1 million, or \$0.27 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$7.6 million or \$0.23 per Class A Ordinary Share for the Third Quarter 2017.

#### June 2018/June 2017

Operating income for the three months ended June 30, 2018 ("Second Quarter 2018") totalled \$7.7 million, an increase of \$0.2 million when compared to operating income of \$7.5 million for the three months ended June 30, 2017 ("Second Quarter 2017"). The increase was attributable to higher electricity sales revenues and decreases in general and administration and consumer services costs. These items were partially offset by an increase in depreciation, transmission and distribution and maintenance costs.

Net earnings for Second Quarter 2018 totalled \$7.0 million, an increase of \$0.9 million from \$6.1 million in Second Quarter 2017. The increase was attributable to higher electricity sales

revenues booked in the quarter and other income. These items were partially offset by higher depreciation, transmission and distribution and maintenance costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2018 were \$6.9 million, or \$0.21 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$6.0 million or \$0.19 per Class A Ordinary Share for the Second Quarter 2017.

# March 2018/March 2017

Operating income for the three months ended March 31, 2018 ("First Quarter 2018") totalled \$3.2 million, a decrease of \$2.2 million when compared to operating income of \$5.4 million for the three months ended March 31, 2017 ("First Quarter 2017"). The decrease was due to an increase in depreciation, transmission and distribution and maintenance costs in First Quarter 2018. These items were partially offset by a 3% increase in kilowatt hour ("kWh') sales and lower general and administration costs.

Net earnings decreased \$1.8 million from \$4.5 million in First Quarter 2017 to \$2.7 million in First Quarter 2018 due primarily to the factors impacting Operating Income and a \$0.1 million increase in Finance charges in First Quarter 2018.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2018 were \$2.6 million, or \$0.08 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$4.3 million or \$0.13 per Class A Ordinary Share for the First Quarter 2017.

# December 2017/December 2016

Net earnings for the three months ended December 31, 2017 ("Fourth Quarter 2017") were \$5.5 million, a \$0.1 million increase when compared to \$5.4 million for the three months ended December 31, 2016 ("Fourth Quarter 2016"). This increase was due to a 2% increase in kWh sales and lower depreciation and amortisation. These items were partially offset by higher maintenance, distribution and consumer service costs for the Fourth Quarter 2017 when compared to the Fourth Quarter 2016.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2017 were \$4.9 million, or \$0.15 per Class A Ordinary Share, as compared to \$4.7 million, or \$0.15 per Class A Ordinary Share for the Fourth Quarter 2016.

#### **Disclosure Controls and Procedures**

The President and Chief Executive Officer ("CEO") and the VP Finance and Chief Financial Officer ("CFO"), together with Management, have established and maintained the Company's disclosure controls and procedures (DC&P), to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the year ending December 31, 2017; and information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Based on the evaluation performed over disclosure controls and

procedures, it was concluded that the DC&P of CUC is adequately designed and operating effectively as of September 30, 2018.

# **Internal Controls over Financial Reporting ("ICFR")**

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

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated 2013 Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, it was concluded that CUC's internal controls over financial reporting are adequately designed and operating effectively as of September 30, 2018.

#### Outlook

In November 2017 CUC submitted the 2018-2022 Capital Investment Plan in the amount of \$234 million to the OfReg for approval (December 2016 approved amount: 2017-2021: \$219 million). Proposed projects for the upcoming period include completion of ongoing generation and T&D system replacements and upgrades. The proposed Capital Investment Plan is expected to be finalized during the fourth quarter of 2018.

The Company completed an Integrated Resource Plan ("IRP") study and submitted it to OfReg in 2017. The Company's goal in undertaking the IRP was to ensure that all energy options were explored, taking into account their safety, reliability and efficiency, before recommendations were proposed with respect to additions to the energy grid. After analyzing which energy resources are technically viable in the Grand Cayman market, taking into account cost, reliability, environmental impact and other aspects, the Company produced a recommended portfolio of energy resources for the Grand Cayman market. The IRP dovetails with the National Energy Policy ("NEP") and will give shape to the energy generation plans for Grand Cayman over the next 30 years. Both the IRP and NEP call for a significant increase in renewable energy projects over the next 10 years.

#### **Outstanding Share Data**

At November 2, 2018 the Company had issued and outstanding 33,161,093 Ordinary Shares and 250,000 9% cumulative Participating Class B Preference Shares.

The number of common shares of the Company that would be issued if all outstanding stock options were converted as at November 2, 2018 is as follows.

Conversion of Securities into Common Shares As at November 2, 2018 (Unaudited)	Number of Common Shares
Stock Options	45,000

Additional information, including CUC's Annual Information Form, is available on SEDAR at <a href="https://www.sedar.com">www.sedar.com</a> and on the Company's website at <a href="https://www.cuc-cayman.com">www.cuc-cayman.com</a>.

(expressed in thousands of United States Dollars)

**Condensed Consolidated Interim Balance Sheets** 

Current Portion of Long-Term Debt

Construction

**Defined Benefit Pension Liability** 

**Commitments and Contingency** 

Share Capital

**Total Shareholders' Equity** 

**Share Premium** 

**Retained Earnings** 

Additional Paid-in Capital

**Accumulated Other Comprehensive Loss** 

**Total Current Liabilities** 

Other Long-Term Liabilities

Long-Term Debt

**Total Liabilities** 

**Shareholders' Equity** 

Consumers' Deposits and Advances for

Unaudited	Note	As at September 30, 2018	As at December 31, 2017
Assets			
Current Assets			
Cash		5,517	7,258
Accounts Receivable, net	6	13,043	9,519
Related Party Receivables	15	18	70
Regulatory Assets	7	22,266	18,283
Inventories		2,846	2,613
Prepayments		2,787	1,624
<b>Total Current Assets</b>		46,477	39,367
Property, Plant and Equipment, net	8	497,441	488,314
Intangible Assets, net		3,152	3,202
Other Assets		12	12
Total Assets		547,082	530,895
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank Overdraft	9	1,158	-
Accounts Payable and Accrued Expenses		28,329	24,106
Related Party Payables	15	34	7
Regulatory Liabilities	7	-	52
Short-Term Debt	9	20,000	-

Total Liabilities and Shareholders' Equity 547,082 530,895

See accompanying Notes to Condensed Consolidated Interim Financial Statements

12

12

16,

17

10

12,714

9,677

71,912

245,270

319,078

2,224

467

125,563

101,031

(1,281)

228,004

1,237

659

16,714

8,667

49,546

254,882 725

306,472

2,214

467

123,376

99,668

(1,302)

224,423

1,319

# **Condensed Consolidated Interim Statements of Earnings**

(expressed in thousands of United States Dollars, except basic and diluted earnings per ordinary share)

Unaudited	Note	Three	Three	Nine	Nine
		Months	Months	Months	Months
		Ended September	Ended September	Ended September	Ended September
		30, 2018	30, 2017	30, 2018	30, 2017
Operating Revenues		33,232			
Electricity Sales	5	23,345	22,736	63,810	61,963
Fuel Factor	5	28,869	22,641	75,765	62,974
Renewables	5	1,141	776	3,017	1,693
Total Operating Revenues		53,355	46,153	142,592	126,630
Operating Expenses					_
Power Generation		30,974	24,252	81,653	67,203
General and Administration		1,819	2,442	5,880	6,696
Consumer Services		796	764	2,201	2,448
Transmission and			<b></b>	0.40=	4044
Distribution		772	687	3,127	1,941
Depreciation		8,163	7,741	24,643	22,845
Maintenance Amortization of Intangible		1,236	1,517	4,243	3,643
Assets		160	149	486	405
Total Operating Expenses		43,920	37,552	122,233	105,181
Took operating Enpended		10,720	0.,002	122,200	100,101
Operating Income		9,435	8,601	20,359	21,449
Other (Expenses)/Income	4.0	(4.500)	(2,005)	(F.0.60)	(( 1(1)
Finance Charges	13	(1,782)	(2,085)	(5,960)	(6,461)
Foreign Exchange Gain	14	451	383	1,524	996
Other Income Total Net Other		1,077	808	2,965	2,317
(Expenses)/Income		(254)	(894)	(1,471)	(3,148)
Net Earnings for the Period		9,181	7,707	18,888	18,301
Preference Dividends Paid- Class		7,101	7,707	10,000	10,301
В		(113)	(113)	(339)	(339)
Earnings on Class A Ordinary					
Shares		9,068	7,594	18,549	17,962
Maighted Assessed Number of					
Weighted-Average Number of Class A Ordinary Shares Issued					
and Fully Paid (in thousands)		33,115	32,854	33,079	32,796
Earnings per Class A Ordinary				,	
Share		0.27	0.23	0.56	0.55
Diluted Earnings per Class A		0.27	0.22	0.50	0.55
Ordinary Share Dividends Declared per Class A		0.27	0.23	0.56	0.55
Ordinary Share		0.175	0.170	0.520	0.510

See accompanying Notes to Condensed Consolidated Interim Financial Statements

# Caribbean Utilities Company, Ltd.

# **Condensed Consolidated Interim Statements of Comprehensive Income**

(expressed in thousands of United States Dollars)

Unaudited	Three	Three	Nine	Nine
	Months	months	Months	months
	Ended	Ended	Ended	Ended
	September	September	September	September
	30, 2018	30, 2017	30, 2018	30, 2017
Net Earnings for the Period	9,181	7,707	18,888	18,301
Other Comprehensive Income:				
Defined Benefit Pension Plans:				
Amortization of Net Actuarial Loss	7	18	21	55
Total Other Comprehensive Income	7	18	21	55
Comprehensive Income	9,188	7,725	18,909	18,356

See accompanying Notes to Condensed Consolidated Interim Financial Statements

# Caribbean Utilities Company, Ltd.

# Condensed Consolidated Interim Statements of Shareholders' Equity (expressed in thousands of United States Dollars except Common Shares)

Unaudited	Class A Ordinary Shares (in thousands)	Class A Ordinary Shares Value (\$)	Preference Shares (\$)	Share Premium (\$)	Additional Paid-in Capital (\$)	Accumulated Other Comprehensive Loss (\$)	Retained Earnings (\$)	Total Equity (\$)
As at December 31, 2017	32,995	1,964	250	123,376	467	(1,302)	99,668	224,423
Net earnings	-	-	-	-	-	-	18,888	18,888
Common share issuance and stock options plans	166	10	-	2,187	-	-	-	2,197
Defined benefit plans	-	-	-	-	-	21	-	21
Dividends on common shares	-	-	-	-	-	-	(17,186)	(17,186)
Dividends on preference shares	-	-	-	-	-	-	(339)	(339)
As at September 30, 2018	33,161	1,974	250	125,563	467	(1,281)	101,031	228,004
As at December 31, 2016	32,647	1,943	250	119,096	467	(790)	99,156	220,122
Net earnings	-	-	-	-	-	-	18,301	18,301
Common share issuance and stock options plans	274	17	-	3,385	-	-	-	3,402
Defined benefit plans	-	-	-	-	-	55	-	55
Dividends on common shares	-	-	-	-	-	-	(16,715)	(16,715)
Dividends on preference shares	-	-	-	-	-	-	(339)	(339)
As at September 30, 2017	32,921	1,960	250	122,481	467	(735)	100,403	224,826

See accompanying Notes to Condensed Consolidated Interim Financial Statements

# **Condensed Consolidated Interim Statements of Cash Flows**

(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Operating Activities				
Net Earnings for the period	9,181	7,707	18,888	18,301
Items not affecting cash:				
Depreciation	8,163	7,741	24,643	22,845
Amortization of Intangible Assets	160	149	486	405
Non-cash Pension Expenses	-	-	-	(43)
Amortization of Deferred Financing Costs	30	37	102	107
	17,534	15,634	44,119	41,615
Net Changes in Working Capital Balances Related to Operations:	(1,183)	57	865	1,383
Net Change in Regulatory Deferrals	1,058	20	(4,035)	(4,771)
Cash flow related to operating activities	17,409	15,711	40,949	38,227
cush flow related to operating activities	17,407	13,711	10,717	30,227
Investing Activities				
Purchase of Property, Plant and Equipment Proceeds from Sale of Property, Plant and	(11,770)	(10,506)	(36,034)	(34,306)
Equipment	-	-	45	-
Costs related to Intangible Assets	(163)	(373)	(436)	(528)
Contributions in Aid of Construction	1,002	928	2,113	1,643
Cash flow related to investing activities	(10,931)	(9,951)	(34,312)	(33,191)
Financing Activities				
Proceeds from Long-Term Debt Financing	_		_	60,000
Proceeds from Short-Term Debt	-	-	20,000	(30,000)
Repayment of Long-Term Debt		_	(13,714)	(8,000)
(Decrease) / Increase in Bank Overdraft	(2,312)	-	1,158	(8,000)
Dividends Paid	(5,908)	(5,734)	(18,018)	(17,550)
Net Proceeds from Share Issues	715	952	2,196	3,401
Cash flow related to financing activities	(7,505)	(4,782)	(8,378)	7,851
(Decrease) / Increase in net cash	(1,027)	978	(1,741)	12,887
Cash - Beginning of the period	6,544	21,770	7,258	9,861
Cash - End of the period	5,517			
Cash - Ellu of the period	5,517	22,748	5,517	22,748
Supplemental disclosure of cash flow information:				
Interest paid during the period	214	10	6,851	5,796

See Accompanying Notes to Condensed Consolidated Interim Financial Statements

# Unaudited - September 30, 2018 (expressed in thousands of United States dollars unless otherwise stated)

#### 1. Nature of Operations and Consolidated Financial Statement Presentation

These condensed consolidated interim financial statements include the regulated operations and the wholly owned subsidiary DataLink and reflect the decisions of the Utility Regulation and Competition Office ("OfReg"). These decisions affect the timing of the recognition of certain transactions resulting in the recognition of regulatory assets and liabilities, which Caribbean Utilities Company, Ltd., ("CUC" or the "Company") considers it is probable to recover or settle subsequently through the rate-setting process.

The principal activity of the Company is to generate and distribute electricity in its licence area of Grand Cayman, Cayman Islands, pursuant to a 20-year exclusive Transmission & Distribution ("T&D") Licence and a 25 year non–exclusive Generation Licence (collectively the "Licences") with the Cayman Islands Government (the "Government"), which expire in April 2028 and November 2039 respectively.

The Company is regulated by the Cayman Islands Utility Regulation and Competition Office ("OfReg"), which has the overall responsibility of regulating the electricity, information and communications technology, and the petroleum industries in the Cayman Islands in accordance with the Utility Regulation and Competition Office Law (2016).

CUC's wholly-owned subsidiary, DataLink was granted a licence in 2012 from the ICTA (now regulated by the OfReg) permitting DataLink to provide fibre optic infrastructure and other information and communication technology ("ICT") services to the ICT industry. DataLink is subject to regulation by OfReg in accordance with the terms and conditions of its Licence which currently extends to March 27, 2027.

All intercompany balances and transactions have been eliminated on consolidation.

#### Rate Regulated Operations

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel cost charges, renewables costs and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the Rate Cap and Adjustment Mechanism ("RCAM"). Effective June 1, 2018, following review and approval by the OfReg, the Company increased its base rates by 1.8%. This increase was a result of the 2017 Return on Rate Base ("RORB") and the increase in the applicable United States ("US") and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2017. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80% based on the range of the RORB values. The required rate adjustment of 1.8% can be calculated by applying 80% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 2.2%. All fuel, lubricating oil and renewable costs are passed through to customers without mark-up as a per kWh charge.

For regulatory purposes fixed assets comprise the completed Property, Plant and Equipment ("PP&E") and intangible assets acquired or constructed by the Company as reported in the

Company's condensed consolidated interim financial statements. The original book value of these fixed assets includes an Allowance for Funds Used During Construction ("AFUDC") and an allowance for General Expenses Capitalised ("GEC"). GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity.

# Seasonality

Interim results will fluctuate due to the seasonal nature of electricity consumption. In Grand Cayman, demand is highest in the summer months due to the air-conditioning load. Consequently, interim results are not necessarily indicative of annual results.

#### **Taxation**

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

The Company is levied custom duties of \$0.30 per Imperial Gallon ("IG") of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports.

# 2. Summary of Significant Accounting Policies

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, these Condensed Consolidated Interim Financial Statements do not include all information and notes required by US GAAP for annual financial statements. Since the Condensed Consolidated Interim Financial Statements and Notes do not include all information and notes required by US GAAP for annual financial statements, the Condensed Consolidated Interim Financial Statements and other information included in this quarterly report should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2017.

The preparation of financial statements in conformity with US 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.

#### 3. Changes in Accounting Policies

**New Accounting Policies** 

Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers, which requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company adopted the standard using the modified retrospective method, under which comparative figures were not restated. The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by OfReg. The adoption of this standard does not change the Company's revenue recognition policy and does not have an impact on net earnings. Additional disclosure on revenue as a result of the adoption of ASC Topic 606 is provided in Note 5.

#### 4. Future Accounting Policies

Leases

ASU No. 2016-02, *Leases (ASC Topic 842)*, was issued in February 2016, is effective for the Company on January 1, 2019 with earlier adoption permitted, and is to be applied using a modified retrospective approach with practical expedient options. Principally, it requires balance sheet recognition of a right-of-use asset and a lease liability by lessees for those leases that are classified as operating leases along with additional disclosures. Based on the Company's assessment to date, leasing activities accounted for as operating leases primarily relate to office facilities and utility plant and equipment.

The Company plans to select the optional transition method which allows entities to continue to apply the current lease guidance in the comparative periods presented in the year of adoption and apply the transition provisions of the new guidance on the effective date of the new guidance. CUC will elect a package of practical expedients that allows it to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. The Company also will elect an additional practical expedient that permits entities to not evaluate existing land easements that were not previously accounted for as leases.

Based on CUC's assessment to date, leasing activities accounted for as operating leases primarily relate to office facilities. The Company currently has a five year term lease for office space. This lease will expire on June 30, 2019. Ongoing implementation efforts include the evaluation of business processes and controls to support recognition and disclosure under the new standard and preparation of expanded disclosures. The Company continues to assess the impact of adoption and monitor standard-setting activities that may affect transition requirements.

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016, is effective for the Company on January 1, 2021 and is to be applied on a modified retrospective basis. The Company intends to early adopt on January 1, 2020. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. The Company is assessing the impact of adoption.

Targeted Improvements to Accounting for Hedging Activities

ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, was issued in August 2017, is effective for the Company on January 1, 2019 with earlier adoption permitted and is to be applied as of the beginning of the fiscal year of adoption. Principally, it better aligns

risk management activities and financial reporting for hedging relationships through changes to designation, measurement, presentation and disclosure guidance. For cash flow and net investment hedges existing at the date of adoption, the amendments should be applied as a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to opening retained earnings. Amended presentation and disclosure guidance is to be applied prospectively. The adoption of this ASU will not have a material impact on the consolidated financial statements and related disclosures.

#### 5. Operating Revenues

Operating Revenues				
	Three Months	Three Months	Nine Months	Nine Months
	Ended	Ended	Ended	Ended
	September	September 30,	September	September 30,
(\$ thousands)	30, 2018	2017	30, 2018	2017
<b>Electricity Sales Revenues</b>				
Residential	11,813	11,845	31,296	31,317
Commercial	11,336	10,730	31,959	30,156
Other (street lighting etc.)	<u>196</u>	<u>161</u>	<u>555</u>	<u>490</u>
<b>Total Electricity Sales Revenues</b>	23,345	22,736	63,810	61,963
Fuel Factor	28,869	22,641	75,765	62,974
Renewables	1,141	776	3,017	1,693
Total Operating Revenues	53,355	46,153	142,592	126,630

#### Electricity Sales revenue

The Company generates, transmits and distributes electricity to residential and commercial customers and for street lighting service. Electricity is metered upon delivery to customers and recognized as revenue using OfReg approved rates when consumed. Meters are read on the last day of each month, and bills are subsequently issued to customers based on these readings. As a result, the revenue accruals for each period are based on actual bills-rendered for the reporting period.

#### Fuel Factor

Fuel Factor revenues consist of charges from diesel fuel and lubricating oil costs which are passed through to consumers on a two-month lag basis with no mark-up.

# Renewables

Renewables revenues are a combination of charges from the CORE program and Entropy which are passed through to consumers on a two-month lag basis with no mark-up.

# 6. Accounts Receivable, net

Accounts Receivable		
	As at	As at
(\$ thousands)	<b>September 30, 2018</b>	December 31, 2017
Billings to consumers	14,519	10,317
Other receivables	905	1,440
Allowance for doubtful accounts	(2,381)	(2,238)
Total Accounts Receivable, net	13,043	9,519

# Other receivables

Other receivables relate to amounts due outside of the normal course of operations. Items in other receivables include sale of inventory and machine break-down costs covered by warranties.

# 7. Regulatory Assets and Liabilities

Regulatory Assets and Liabilities			
(\$ thousands)			
		As at	As at
Asset/Liability	Description	<b>September 30, 2018</b>	December 31, 2017
Regulatory Assets	Fuel Tracker Account	20,252	17,187
Regulatory Assets	Derivative contracts	224	-
	Miscellaneous Regulatory		
Regulatory Assets	Assets	197	218
	Government & Regulatory		
Regulatory Assets	Tracker Account	613	878
Regulatory Assets	Demand rate	<u>980</u>	=
Total Regulatory Assets		22,266	18,283
Regulatory Liabilities	Derivative contracts	=	<u>(52)</u>
Total Regulatory Liabilities		-	(52)

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

Property, Plant and Equipment, net		
(\$ thousands)	Cost September 30, 2018	Net Book Value September 30, 2018
Transmission & Distribution (T&D)	376,788	234,314
Generation Other:	443,044	240,219
Land	5,304	5,304
Buildings	21,473	9,044
Equipment, motor vehicles and computers	28,260	8,139
Total of T&D, Generation and Other	874,869	497,020
Telecommunications assets	546	421
Property, Plant and Equipment, net	875,415	497,441

Property, Plant and Equipment, net		
(\$ thousands)	Cost December 31, 2017	Net Book Value December 31, 2017
Transmission & Distribution (T&D)	354,851	221,990
Generation	431,688	243,905
Other:		
Land	5,304	5,304
Buildings	20,942	8,899
Equipment, motor vehicles and computers	27,110	7,778
Total of T&D, Generation and Other	839,895	487,876
Telecommunications assets	546	438
Property, Plant and Equipment, net	840,441	488,314

## 9. **Short-Term Financing**

The Company has \$50.0 million at September 30, 2018 (\$50.0 million at December 31, 2017) of unsecured credit financing facilities with Scotiabank & Trust (Cayman) Limited ("Scotia") and Royal Bank of Canada ("RBC"). The total available amount was \$28.3 million at September 30, 2018 (\$49 million at December 31, 2017).

Short-Term Financing			
(\$ thousands)			
Credit Facilities	Total Credit Financing Facilities September 30, 2018	Total Utilized September 30, 2018	Total Available September 30, 2018
Provided by Scotia:			
Letter of Guarantee	1,000	500	500
Operating, Revolving Line of Credit	10,000	1,158	8,842
Catastrophe Standby Loan Demand Loan Facility- Interim	7,500	-	7,500
Funding of Capital Expenditures	31,000	<u>20,000</u>	<u>11,000</u>
Total	49,500	21,658	27,842
Provided by RBC:			
Corporate Credit Card Line*	500	-	500
Short - Term Financing	50,000	21,658	28,342

<sup>\*</sup>Included in Accounts payable and accrued expenses

A commission at a rate of 0.65% per annum is levied on the Letter of Guarantee amount. Interest is payable on the amount of the Operating Line of Credit utilised at Scotia's Cayman Islands Prime Lending Rate plus 0.15% per annum. In the event that the Operating Facility is drawn down in United States Dollars, the interest is payable at Scotia's Bank of New York Prime Lending Rate plus 0.15% per annum. Standby Loan and Demand loan interest is payable at LIBOR plus 1.15% per annum for periods of 30, 60, 90, 180 or 360 days. A stand-by fee of 0.10% per annum is applied to the daily unused portion of the Standby Loan and Demand Loan facilities. An annual review fee of 0.05% of the total credit facilities is payable upon confirmation that the Facility has been renewed for a further period, being the earlier of 12 months or the next annual review date.

# 10. Capital Stock

The table below shows the number of authorised and issued and outstanding shares of the Company (shares as follows fully stated, not in thousands):

Capital Stock		
	As at	As at
	September	December
	30, 2018	31, 2017
Authorised:		
Class A Ordinary Shares of CI\$0.05 each	60,000,000	60,000,000
9% Cumulative Participating Class B Preference	250,000	250,000
Shares of \$1.00 each	250,000	250,000
Class C Preference Shares of \$1.00	419,666	419,666
Cumulative Participating Class D Share of CI\$0.56	1	1
Issued and Outstanding:		
Class A Ordinary Shares	33,161,093	32,994,972
Class B Preference Shares	250,000	250,000
Issued and Outstanding (\$ Amount):		
Class A Ordinary Shares	1,973,875	1,963,986
Class B Preference Shares	<u>250,000</u>	<u>250,000</u>
Total Class A Ordinary & Class B Preference	2 222 075	2 212 006
Shares	2,223,875	2,213,986

#### 11. Share Based Compensation Plans

#### **Share Options:**

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

The exercise price per share in respect of options is equal to the fair market value of the Class A Ordinary Shares on the date of grant. Each option is for a term not exceeding ten years, and will become exercisable on a cumulative basis at the end of each year following the date of grant. The maximum number of Class A Ordinary Shares under option shall be fixed and approved by the shareholders of the Company from time to time and is currently set at 1,220,100. Options are forfeited if they are not exercised prior to their respective expiry date or upon termination of employment prior to the completion of the vesting period.

Share Options				
	Nine Months	Nine Months		
	Ended	Ended		
	September 30, 2018	September 30, 2018		
	30, 2010	30, 2010	Weighted	
		Weighted	Average	
		Average	Remaining	Aggregate
	Number of	Exercise Price	Contractual	Intrinsic Value
	Options	Per Share	Term (years)	(\$ thousands)
Outstanding at Beginning of				
Period	45,000	9.66	4.25	-
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited/Cancelled	-	-	-	-
Expired	-	-	_	_
Outstanding, End of Period	<u>45,000</u>	9.66	<u>3.49</u>	=
Vested, End of the Period	45,000	9.66	3.49	-

Under the fair value method, the compensation expense was \$nil for the nine month period ended September 30, 2018 (September 30, 2017: \$ nil).

### 12. Fair Value Measurement

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists that prioritizes the inputs used to measure fair value.

The Company is required to determine the fair value of all derivative instruments in accordance with the following hierarchy:

The three levels of the fair value hierarchy are defined as follows:

- Level 1: Fair value determined using unadjusted quoted prices in active markets.
- Level 2: Fair value determined using pricing inputs that are observable.
- Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

The fair values of the Company's financial instruments, including derivatives, reflect a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Company's future earnings or cash flows.

There have been no changes in the methodologies used at September 30, 2018. The estimated fair values of the Company's financial instruments, including derivative financial instruments, are as follows:

Financial Instruments				
	As at Septembe	r 30, 2018	As at December 31, 2017	
(\$ thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt, including				
Current Portion	257,984	258,413	271,596	283,649
Fuel Option Contracts	224	224	52	52

The Company's long term debt and fuel derivative contracts, based on the three levels that distinguish the level of pricing observability utilized in measuring fair value, have been classified as Level 2. There were no transfer between levels for the period ended September 30, 2018.

# 13. Finance Charges

The composition of finance charges were as follows:

Finance Charges				
(\$ thousands)	Three	Three	Nine	Nine
	Months	Months	Months	Months
	Ended	Ended	Ended	Ended
	September	September	September	September30,
	30, 2018	30, 2017	30, 2018	2017
Interest costs - long-term debt	3,055	3,277	9,522	9,378
Other interest costs	243	47	416	303
AFUDC	<u>(1,516)</u>	(1,239)	<u>(3,978)</u>	(3,220)
Finance Charges	1,782	2,085	5,960	6,461

#### 14. Foreign Exchange

The closing rate of exchange on September 30, 2018 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn \$1.2945 per US\$1.00. The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by the Cayman Islands Monetary Authority is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of September 30, 2018 for conversion of Cayman Islands dollars into Canadian dollars was Cdn \$1.5534 per CI\$1.00 (December 29, 2017: Cdn \$1.5054).

#### 15. Transactions with Related Parties

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The related-party transactions for 2018 and 2017 are summarized in the following table.

Related Party Transactions		
	As at	As at
	September	December
(\$ thousands)	30, 2018	31, 2017
Receivables from Newfoundland Power (a subsidiary of Fortis Inc.)	4	4
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	14	17
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	=	<u>49</u>
Total Related Party Receivables	18	70
Payables to Fortis TCI (a subsidiary of Fortis Inc.)	27	-
Payables to Fortis Inc. (the company's majority shareholder)	7	5
Payables to Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	Ξ.	<u>2</u>
Total Related Party Payables	34	7

Related party receivables and payables include but are not limited to travel expenses, hurricane preparedness, membership fees and insurance premiums.

#### 16. Commitments

As at September 30, 2018, the Company's consolidated commitments in each of the next five years and for periods thereafter are as follows:

Commitments					
(\$ thousands)	Total	2018	2019-	2021-	2023
			2020	2022	Onward
Bank Overdraft	1,158	1,158	-	-	-
Accounts Payable and Accrued	28,330	28,330			
Expenses					
Consumer's Deposits and Advances for	9,677	9,677	-	-	-
Construction					
Letter of Guarantee	500	500	-	-	-
Long Term Debt	259,285	12,714	31,987	30,753	183,831
Long Term Debt Interest	<u>114,293</u>	<u>12,130</u>	21,656	<u>17,869</u>	<u>62,638</u>
Commitments	413,243	64,509	53,643	48,622	246,469

During 2015, the Company entered into a Power Purchase Agreement ("PPA") with Entropy Cayman Solar Limited to purchase up to 2.1 megawatt hours ("MWh") per year of associated energy for a 25-year term. This 5 MW solar project was completed in June 2017. It is expected to significantly reduce emissions into the atmosphere through the avoidance of diesel fuel consumption. The PPA also provides renewable energy at a competitive initial price of \$0.17 cents per kWh. The PPA qualifies for the Normal Purchase Normal Sale exemption under Accounting Standards Codification ("ASC") 815 and does not qualify as a derivative.

The Company has a primary fuel supply contract with RUBiS Cayman Islands Limited ("RUBiS"). Under the agreement, the Company is committed to purchase approximately 60% of its diesel fuel requirements for its generating plant from RUBiS. The Company also has a secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") and is committed to purchase approximately 40% of the Company's fuel requirements for its generating plant from Sol. The Company executed 24 month fuel supply contracts in June 2018 upon the

expiration of its previous fuel supply contract with both RUBiS and Sol, with the option to renew for two additional terms of 18 months at the end of the term. The approximate remaining quantities per the fuel contract with RUBiS on an annual basis are, by fiscal year in millions of IGs: 2018 - 5.0, 2019 - 21.3 and 2020 - 8.9. The approximate remaining quantities per the fuel contract with Sol on an annual basis are, by fiscal year in millions of IGs: 2018 - 3.4, 2019 - 14.0 and 2020 - 6.0. Both contracts qualify for the Normal Purchase Normal Sale exemption under ASC 815 and do not qualify as derivatives.

The point of delivery for fuel billing purposes remains at the Company's North Sound Plant compound. The Company is also responsible for the management of the fuel pipeline and ownership of bulk fuel inventory at the North Sound Plant.

As a result of the Company's bulk fuel inventory, the value of CUC's closing stock of fuel at September 30, 2018 was \$2.1 million (December 31, 2017: \$2.0 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Road Power Plant.

#### 17. Contingency

On July 11, 2017 OfReg issued ICT 2017-1 Determination Pole Attachment Reservation Fees. OfReg's decision was that DataLink's charge of Reservation Fees in the manners provided for in the current contracts, in its view, was contrary to the ICT Law. Under the determination, DataLink is required to remove references to reservation fees in its contracts with other telecomm providers and provide a refund to the telecomms of fees charged, including fees charged prior to 2017. DataLink is to amend the contracts within 30 days of the determination and negotiate the amounts to be refunded within 60 days of the determination.

As a result of a legal review and assessment of the Directives contained in ICT 2017 -1, DataLink sought a stay of the decision and permission to apply for Judicial Review following the August 9, 2017 refusal by OfReg to suspend the decision and allow DataLink time to respond. Both the stay and permission to apply for Judicial Review were granted on August 11, 2017.

An order for directions was agreed between the parties and a timeline negotiated. A court hearing was held in June 2018. The Company is awaiting a decision on this case.

#### **Shareholder Information**

#### Shareholder Plans

CUC offers its Shareholders a Dividend Reinvestment Plan. Please contact one of CUC's Registrar and Transfer Agents or write to CUC's Assistant to the Company Secretary if you would like to receive information about the plan or obtain an enrolment form.

CUC also has a Customer Share Purchase Plan for customers resident in Grand Cayman. Please contact our Customer Service Department at (345) 949-5200 if you are interested in receiving details.

#### **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.

Our Registrar and Transfer Agents are as follows:

#### **AST Trust Company (Canada)**

P.O. Box 4229 Station A Toronto, ON M5W 0G1 North America toll free - 1-800-387-0825 Direct - 416-682-3860 Fax - 1-888-249-6189

E-mail: <a href="mailto:inquiries@astfinancial.com">inquiries@astfinancial.com</a>

#### Caribbean Utilities Company, Ltd.

**Company Secretary** P.O. Box 38 Grand Cayman KY1-1101 CAYMAN ISLANDS Tel: (345) 949-5200

Fax: (345) 949-4621 E-mail: *investor@cuc.ky* 

Website: <u>www.cuc-cayman.com</u>

If you require further information or have any questions regarding CUC's Class A Ordinary Shares (listed in U.S. funds on the Toronto Stock Exchange), please contact:

#### Caribbean Utilities Company, Ltd.

Assistant to the Company Secretary P.O. Box 38 Grand Cayman KY1-1101 CAYMAN ISLANDS Tel: (345) 949-5200

Fax: (345) 949-4621 E-mail: investor@cuc.ky

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