



Caribbean Utilities Company, Ltd.

## 2019 Second Quarter Report

June 30, 2019



## General Data

### **About the Company**

Caribbean Utilities Company, Ltd., (“CUC” or “the Company”), 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 113.3 MW was experienced on June 17, 2019. CUC is committed to providing a safe and reliable supply of electricity to over 30,000 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 65,800, 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.

**Table of Contents:**

Interim Management's Discussion and Analysis	4
Condensed Consolidated Interim Financial Statements:	
Condensed Consolidated Interim Balance Sheets	21
Condensed Consolidated Interim Statements of Earnings	22
Condensed Consolidated Interim Statements of Comprehensive Income	23
Condensed Consolidated Interim Statements of Shareholders' Equity	24
Condensed Consolidated Interim Statements of Cash Flows	25
Notes to Condensed Consolidated Interim Financial Statements	26
Shareholder Information	36

## 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, 2018 ("Fiscal 2018"). 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 2018 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", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedules", 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.*

August 1, 2019

## 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 Months Ending June 30, 2019	Three Months Ending June 30, 2018	Six Months Ending June 30, 2019	Six Months Ending June 30, 2018	Change	% Change
Electricity Sales Revenues	23,671	22,486	43,950	40,465	3,485	9%
Fuel Factor Revenues	22,994	24,178	49,092	46,896	2,196	5%
Renewables Revenues	1,372	1,099	2,340	1,876	464	25%
Total Operating Revenues	48,037	47,763	95,382	89,237	6,145	7%
Fuel & Lube Costs	22,994	24,178	49,092	46,896	2,196	5%
Renewables Costs	1,372	1,099	2,340	1,876	464	25%
Other Operating Expenses	15,454	14,781	30,724	29,541	1,183	4%
Total Operating Expenses	39,820	40,058	82,156	78,313	3,843	5%
Net Earnings for the Period	7,943	7,042	12,485	9,707	2,778	29%
Cash Flow related to Operating Activities	13,080	10,217	23,728	23,536	192	1%
<i>Per Class A Ordinary Share:</i>						
Basic Earnings	0.24	0.21	0.37	0.29	0.08	28%
Dividends Paid	0.175	0.175	0.350	0.345	0.005	1%
Total Customers	30,100	29,377	30,100	29,377	723	2%
Total Employees*	237	218	237	218	19	9%
Customers per Employee (#)	127	135	127	135	(8)	-6%
System Availability (%)	99.95	99.91	99.95	99.91	0.04	0%
Peak Load Gross (MW)	113.3	102.8	113.3	102.8	10.5	10%
<i>Millions of kWh:</i>						
Net Generation	176.1	163.1	325.2	306.1	19.1	6%
Total Energy Supplied	180.4	164.7	332.7	310.2	22.5	7%
Kilowatt-Hour Sales	173.0	159.7	319.4	300.2	19.2	6%
Sales per employee	0.73	0.74	1.35	1.38	(0.03)	-2%

\*Total Full time CUC 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 2018 was 7.1% (2017: 6.9%). CUC’s RORB for 2019 is targeted in the 7.5% to 9.5% range (2018: 7.00% to 9.00%).

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 2019, following review and approval by the OfReg, the Company increased its base rates by 0.9%. This increase was a result of the 2018 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 2018. 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 0.9% 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 1.12%. 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.

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.

The OfReg assesses CUC's performance against the performance standard expectations set out in the ERA (Standard of Performance) Rules 2012. 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.

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 0.5% 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. The OfReg and the Company agreed on a change to the licence and regulatory fee structure which commenced on May 1, 2018, whereby the objective is to collect fixed amounts annually of \$2.9 million for the license fee and \$1.4 million for the regulatory fee. This translates to a rate of \$0.0149 per kWh, which is applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge.

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

## **Sales**

Sales for the three months ended June 30, 2019 (“Second Quarter 2019” or “Q2 2019”) totalled 173.0 million kWh, an increase of 13.3 million kWh in comparison to 159.7 million kWh for the three months ended June 30, 2018 (“Second Quarter 2018” or “Q2 2018”). This was driven by an increase in the average residential and the average commercial kWh consumption in Q2 2019 compared to Q2 2018. The average monthly temperature for Q2 2019 was 84 degrees Fahrenheit as compared to an average monthly temperature of 83 degrees for Q2 2018. Warmer temperatures increased air conditioning load which positively impacted the Company’s sales.

Sales for the six months ended June 30, 2019 totalled 319.4 million kWh, an increase of 19.2 million kWh in comparison to 300.2 million kWh for the six months ended June 30, 2018. Sales were positively impacted by the 2% increase in total customers and an increase in the average kWh consumption of residential and commercial customers.

Total customers as at June 30, 2019 were 30,100, an increase of 723 customers, or 2%, compared to 29,377 customers as at June 30, 2018.

## **Earnings**

Operating income for Q2 2019 totalled \$8.2 million, an increase of \$0.5 million when compared to operating income of \$7.7 million for Q2 2018. The increase is primarily attributable to higher electricity sales revenues which was partially offset by higher depreciation expenses.

Net earnings for Q2 2019 totalled \$7.9 million, an increase of \$0.9 million from \$7.0 million in Q2 2018. In addition to the items impacting Operating Income, Net Earnings were also positively impacted by lower finance charges driven by higher Allowance for Funds Used During Construction (“AFUDC”).

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Q2 2019 were \$7.8 million, or \$0.24 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$6.9 million, or \$0.21 per Class A Ordinary Share for Q2 2018.

Operating income for the six months ended June 30, 2019 totalled \$13.2 million, an increase of \$2.3 million when compared to operating income of \$10.9 million for the six months ended June 30, 2018. The increase is primarily attributable to higher electricity sales revenues which was partially offset by higher depreciation expenses.

Net earnings for the six months ended June 30, 2019 totalled \$12.5 million, an increase of \$2.8 million when compared to net earnings of \$9.7 million for the six months ended June 30, 2018.

The increase is primarily attributable to the higher electricity sales revenues and lower finance charges. These items were partially offset by higher depreciation expenses.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the six months ended June 30, 2019 were \$ 12.3 million, or \$0.37 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$ 9.5 million, or \$0.29 per Class A Ordinary Share, for the six months ended June 30, 2018.

Following OfReg approval, effective January 1, 2018 the Company implemented demand rate billing for its large commercial customer rate class to replace the pre-2018 energy charge rate component with a combination of energy and demand charges. Demand rate structures are typically used to better align billings with the costs to serve a particular rate class of customers.

In order to facilitate a smoother transition to the new rate structure, demand rates are being implemented over a three-year period. This phase-in plan is intended to gradually introduce demand rates to the entire large commercial customer class and provide a true-up mechanism to ensure the new rates are revenue-neutral compared to the existing rates.

During the period of January 1, 2018 to May 31, 2018, Electricity Sales Revenues for large commercial customers under the newly introduced demand rate were less than what would have been billed under the previous energy only rate. The Company applied to OfReg for a review of this shortfall to ensure revenue neutrality which would provide for the same revenues as if billed under the previous energy only rates. In June 2018, OfReg approved an increase of the rates going forward. The Company was also granted approval to record the revenue shortfall and a regulatory asset of \$1.0 million for the first five months of 2018 which positively impacted electricity sales revenues. The revenue shortfall will be recovered over years two and three of the implementation in order to smoothen the effects of the adjustment to the large commercial customers. At June 30, 2019 the balance in this regulatory asset was \$0.6 million (see Note 8 of the condensed consolidated interim financial statements).

## **Operating Revenues**

Operating revenues for Q2 2019 were \$48.0 million, an increase of \$0.2 million from \$47.8 million for Q2 2018. The increase in operating revenues for Q2 2019 was due primarily to increases in residential electricity sales and renewables revenue partially offset by a decrease in fuel factor revenues.

Operating revenues for the six months ended June 30, 2019 were \$95.4 million, an increase of \$6.2 million from \$89.2 million for the six months ended June 30, 2018. The increase in operating revenues for the six months ended June 30, 2019 was due primarily to increases in residential electricity sales and increases in fuel factor and renewables revenue.

Other revenues (street lighting, etc.) for Q2 2019 totalled \$0.2 million, comparable to \$0.2 million for the Q2 2018. Other revenues for the six months ended June 30, 2019 totalled \$0.4 million, comparable to \$0.4 million for the six months ended June 30, 2018.

Electricity sales revenues were \$23.7 million for Q2 2019, an increase of \$1.2 million from \$22.5 million for Q2 2018. Electricity sales revenues were \$44.0 million for the six months ended June 30, 2019, an increase of \$3.5 million from \$40.5 million for the six months ended



June 30, 2018. Electricity sales revenues for the three and six months ended June 30, 2019 increased when compared to the same periods last year due to the 0.9% and 1.8% base rate increases effective June 1, 2019 and June 1, 2018 respectively. Electricity sales revenues for the six months ended June 30, 2019 were also positively impacted by an increase in kWh sales.

Fuel factor revenues for Q2 2019 totalled \$23.0 million, a decrease of \$1.2 million, compared to fuel factor revenues of \$24.2 million for Q2 2018. The average Fuel Cost Charge rate billed to consumers for Q2 2019 was \$0.16 per kWh, compared to the average Fuel Cost Charge rate of \$0.17 per kWh for Q2 2018. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

Fuel factor revenues for the six months ended June 30, 2019 totalled \$49.1 million, an increase of \$2.2 million compared to fuel factor revenues of \$46.9 million for the six months ended June 30, 2018. Fuel factor revenues for the six months ended June 30, 2019 increased when compared to the six months ended June 30, 2018 due to higher fuel consumption.

Renewables revenues for Q2 2019 totalled \$1.4 million, an increase of \$0.3 million compared to renewables revenues of \$1.1 million for Q2 2018. 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.

Renewables revenues for the six months ended June 30, 2019 totalled \$2.3 million, an increase of \$0.4 million compared to renewables revenues of \$1.9 million for the six months ended June 30, 2018.

### **Operating Expenses**

Operating expenses for Q2 2019 totalled \$39.8 million, a \$0.3 million decrease from \$40.1 million for Q2 2018. This decrease was due primarily to lower power generation costs, partially offset by higher depreciation costs for Q2 2019 when compared to Q2 2018.

Operating expenses for the six months ended June 30, 2019 totalled \$82.2 million, a \$3.9 million increase from \$78.3 million for the six months ended June 30, 2018. This increase was due primarily to higher power generation and depreciation costs, partially offset by lower maintenance and transmission and distribution costs.

### **Power Generation**

Power generation costs for the Q2 2019 decreased \$0.8 million to \$25.5 million when compared to \$26.3 million for Q2 2018. The decrease for Q2 2019 is a result of lower fuel costs.

Power generation costs for the six months ended June 30, 2019 increased \$3.0 million to \$53.7 million when compared to \$50.7 million for the six months ended June 30, 2018. This increase for the six months ended June 30, 2019 is a result of higher fuel consumption.

The Company’s average price per imperial gallon (“IG”) of fuel for the Q2 2019 decreased 4% to \$2.95, compared to \$3.06 for the Q2 2018. The Company’s average price per IG of fuel for

the six months ended June 30, 2019 decreased 6% to \$2.85, compared to \$3.03 for the six months ended June 30, 2018.

The Company's average price per IG of lubricating oil for the Q2 2019 decreased 3% to \$9.47 when compared to \$9.77 for the Q2 2018. The Company's average price per IG of lubricating oil for the six months ended June 30, 2019 decreased 2% to \$9.58 when compared to \$9.76 for the six months ended June 30, 2018.

Net generation was 176.1 million kWh for the Q2 2019, an 8% increase when compared to 163.1 million kWh for Q2 2018. Net fuel efficiency for Q2 2019 of 18.70 kWh per IG decreased when compared to net fuel efficiency for Q2 2018 of 18.82 kWh per IG.

Net generation was 325.2 million kWh for the six months ended June 30, 2019 a 6% increase when compared to 306.1 million kWh for the six months ended June 30, 2018. Net fuel efficiency for the six months ended June 30, 2019 of 18.80 kWh per IG decreased when compared to net fuel efficiency for the six months ended June 30, 2018 of 18.87 kWh per IG. This decrease in net fuel efficiency for the three and six months ended June 30, 2019 is due primarily to maintenance performed during the period which resulted in the use of less efficient generating units.

The Fuel Tracker Account (see Note 8 of the condensed consolidated interim financial statements) is comprised of total diesel fuel, lubricating oil 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 2018 which remain outstanding at June 30, 2019, 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 Q2 2019 totalled \$1.4 million, an increase of \$0.3 million when compared to renewables costs of \$1.1 million for Q2 2018. Renewables costs are a combination of charges from the CORE programme and Entropy.

Other generation expenses for Q2 2019 totalled \$1.2 million, an increase of \$0.2 million compared to other generation expenses of \$1.0 million for Q2 2018. Other generation expenses for the six months ended June 30, 2019 totalled \$2.3 million, an increase of \$0.4 million compared to other generation expenses of \$1.9 million for the six months ended June 30, 2018.

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

G&A expenses for the Q2 2019 totalled \$2.1 million, comparable to \$2.1 million for Q2 2018.

General Expenses Capitalised ("GEC") totalled \$1.6 million for Q2 2019, an increase of \$0.3 million when compared to \$1.3 million for Q2 2018.

G&A expenses for the six months ended June 30, 2019 totalled \$4.1 million, comparable to G&A expenses of \$4.1 million for the six months ended June 30, 2018.

GEC totalled \$3.1 million for the six months ended June 30, 2019, an increase of \$0.5 million when compared to GEC of \$2.6 million for the six months ended June 30, 2018.

### **Consumer Services (“CS”)**

CS expenses for Q2 2019 totalled \$0.8 million, comparable to \$0.8 million for Q2 2018.

CS expenses for the six months ended June 30, 2019 totalled \$1.5 million, a \$0.1 million increase compared to \$1.4 million for the six months ended June 30, 2018. The increase is due to lower labour recharges and higher provision for bad debt expense in 2019 when compared to 2018.

### **Transmission and Distribution (“T&D”)**

T&D expenses for Q2 2019 totalled \$1.2 million, comparable to T&D expenses for Q2 2018 of \$1.2 million.

T&D expenses for the six months ended June 30, 2019 totalled \$2.1 million, a decrease of \$0.3 million compared to T&D expenses for the six months ended June 30, 2018 of \$2.4 million. T&D expenses for the six months ended June 30, 2019 were impacted by lower payroll related and line maintenance costs. These items were partially offset by lower labour and vehicle recharges. Labour and vehicle recharges are recorded as credits to T&D expenses.

### **Depreciation of Property, Plant and Equipment (“PP&E”)**

Depreciation expenses for Q2 2019 totalled \$8.8 million, an increase of \$0.6 million, from \$8.2 million for Q2 2018. Depreciation expenses for the six months ended June 30, 2019 totalled \$17.7 million, an increase of \$1.2 million, from \$16.5 million for the six months ended June 30, 2018. The increase in depreciation expenses for the three and six months ended June 30, 2019 is due to capital projects completed in 2018.

### **Maintenance**

Maintenance expenses for Q2 2019 totalled \$1.3 million, a decrease of \$0.1 million when compared to \$1.4 million for the Q2 2018. Maintenance expenses for the six months ended June 30, 2019 totalled \$2.7 million, a decrease of \$0.3 million when compared to \$3.0 million for maintenance expenses for the six months ended June 30, 2018. This decrease in maintenance for the three and six months ended June 30, 2019 is due primarily to the decrease in casual labour costs and higher labour and vehicle recharges. These items were partially offset by higher computer maintenance costs.

### **Amortization**

Amortization of intangible assets for Q2 2019 totalled \$0.2 million, comparable to \$0.2 million for Q2 2018.

Amortization of intangible assets for the six months ended June 30, 2019 totalled \$0.4 million, an increase of \$0.1 million from \$0.3 million for the six months ended June 30, 2018.

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 Q2 2019 totalled \$0.3 million, a decrease of \$0.4 million from \$0.7 million for Q2 2018. Net Other Expenses for the six months ended June 30, 2019 totalled \$0.7 million, a decrease of \$0.5 million compared to Net Other Expenses of \$1.2 million for the six months ended June 30, 2018. This decrease in Net Other Expenses for the three and six months ended June 30, 2019 is due primarily to the decrease in finance charges.

Finance charges for Q2 2019 totalled \$1.6 million, a \$0.4 million decrease from \$2.0 million for the Q2 2018. This decrease is as a result of higher AFUDC in Q2 2019.

Finance charges for the six months ended June 30, 2019 totalled \$3.5 million, a \$0.7 million decrease from \$4.2 million for the six months ended June 30, 2018. This decrease is as a result of higher AFUDC and lower interest on long-term debt, partially offset by higher interest on short-term debt for the six months ended June 30, 2019.

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 2019 is 8.5% (2018: 8%) as agreed with the OfReg in accordance with the T&D Licence, and is reviewed annually.

The AFUDC amount for Q2 2019 totalled \$1.8 million, an increase of \$0.5 million from \$1.3 million for Q2 2018. The AFUDC amount for the six months ended June 30, 2019 totalled \$3.4 million, an increase of \$0.9 million from \$2.5 million for the six months ended June 30, 2018. This increase was attributable to higher average of work in progress capital projects and a higher cost of capital rate for the three and six months ended June 30, 2019.

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 Q2 2019 totalled \$0.4 million, comparable to \$0.4 million in Q2 2018. Foreign exchange gains for the six months ended June 30, 2019 totalled \$0.9 million, a \$0.2 million decrease when compared to \$1.1 million for the six months ended June 30, 2018.

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 \$0.9 million for Q2 2019, comparable to other income of \$0.9 million for Q2 2018. Other income totalled \$1.8 million for the six months ended June 30, 2019, a \$0.1 million decrease when compared to other income of \$1.9 million for the six months ended June 30, 2018. This decrease is mainly due to a decrease in the miscellaneous revenue recorded by the Company in Q2 2019.

Revenues from DataLink for the Q2 2019 are recorded in Other Income in the amount of \$0.3 million, a \$0.1 million decrease from \$0.4 million for Q2 2018.

Revenues from DataLink for the six months ended June 30, 2019 are recorded in Other Income in the amount of \$0.6 million, a decrease of \$0.2 million when compared to \$0.8 million for the six months ended June 30, 2018.

## Liquidity

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

<b>Cash Flows</b>						
(\$ thousands)						
	<b>Three Months Ended June 30, 2019</b>	<b>Three Months Ended June 30, 2018</b>	<b>Six Months Ended June 30, 2019</b>	<b>Six Months Ended June 30, 2018</b>	<b>Change</b>	<b>% Change</b>
Beginning cash	4,775	5,231	8,686	7,258	1,428	20%
Cash provided by/(used in):						
Operating activities	13,080	10,217	23,728	23,536	192	1%
Investing activities	(12,034)	(13,522)	(23,954)	(23,378)	(576)	2%
Financing activities	(725)	4,618	(3,364)	(872)	(2,492)	286%
<b>Ending cash</b>	<b>5,096</b>	<b>6,544</b>	<b>5,096</b>	<b>6,544</b>	<b>(1,448)</b>	<b>-22%</b>

### *Operating Activities:*

Cash flow provided by operations, after working capital adjustments, for Q2 2019, was \$13.1 million, a \$2.9 million increase when compared to \$10.2 million for Q2 2018. This increase is primarily attributable to higher earnings and the movement in non-cash working capital balances in Q2 2019 when compared to the same period last year.

Cash flow provided by operations, after working capital adjustments, for the six months ended June 30, 2019, was \$23.7 million, a \$0.2 million increase when compared to \$23.5 million for the six months ended June 30, 2018. This increase is primarily attributable to higher earnings and the movement in regulatory deferrals for the six months ended June 30, 2019 when compared to the same period last year.

*Investing Activities:*

Cash used in investing activities for Q2 2019 totalled \$12.0 million, a decrease of \$1.5 million from \$13.5 million for Q2 2018. This decrease is due mainly to lower capital expenditure in Q2 2019 when compared to the Q2 2018.

Cash used in investing activities for the six months ended June 30, 2019 totalled \$24.0 million, an increase of \$0.6 million from \$23.4 million for the six months ended June 30, 2018. This increase is due mainly to lower contributions in aid of construction.

*Financing Activities:*

Cash used in financing activities for Q2 2019 totalled \$0.7 million, a decrease of \$5.3 million compared to cash provided by financing activities of \$4.6 million for Q2 2018. This decrease in cash is attributable to higher repayments of short-term debt partially offset by the proceeds from long-term debt of \$40.0 million and bank overdraft facilities in Q2 2019.

Cash used in financing activities for the six months ended June 30, 2019 totalled \$3.4 million, an increase of \$2.5 million compared to cash used in financing activities of \$0.9 million for the six months ended June 30, 2018. This increase in cash used in financing activities is attributable to the repayment of long-term and short-term debt in 2019 which were partially offset by the proceeds from long-term debt of \$40.0 million and shares issued through approved share plans.

*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 2019 capital expenditure program.



## 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 2019 and 2018 are summarized in the following table.

Related Party Transactions		As at June 30, 2019	As at December 31, 2018
<i>(in thousands)</i>			
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)		-	6
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)		6	-
<b>Total Related Party Receivables</b>		<b>6</b>	<b>6</b>
Payables to Fortis Inc. (the company's majority shareholder)		-	5
<b>Total Related Party Payables</b>		<b>-</b>	<b>5</b>

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 June 30, 2019, are outlined in the following table:

Contractual Obligations					
(\$ thousands)					
	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	286,572	14,857	32,688	34,675	204,352
Long-term debt interest	135,283	11,297	19,755	16,044	88,187
<b>Total</b>	<b>421,855</b>	<b>26,154</b>	<b>52,443</b>	<b>50,719</b>	<b>292,539</b>

## Financial Position

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2018 to June 30, 2019:

### Significant changes in Balance Sheet

(from December 31, 2018 to June 30, 2019)

Balance Sheet Account	Increase/ (Decrease) (\$ thousands)	Explanation
Cash and Cash Equivalents	(3,590)	Decrease due to cash provided by operating activities of \$23.7 million and partially offset by cash used in investing activities of \$23.9 million and cash used in financing activities of \$3.4 million.
Accounts Receivable	1,977	An increase in CUC's receivables of \$2.8 million due to higher sales during the period which was partially offset by a decrease of \$0.2 million of miscellaneous billings and \$0.6 million of DataLink receivables.
Prepayments	(1,686)	Decrease due to the timing of expense recognition.
Property, Plant and Equipment	9,357	Net increase is comprised of (1) capital expenditures of \$22.8 million (2) depreciation expense of \$17.7 million and (3) \$4.4 million in accrued capital expenditure and (4) \$0.1 million in funds received in aid of construction.
Accounts Payable and Accrued Expenses	(4,688)	Decrease attributable to decreases in payables and dividends payables which were partially offset by increases in capital expenditure accruals and fuel costs payable.
Short Term Debt	(30,000)	Decrease due to repayment of Scotiabank capital expenditure facility in May and June 2019.
Current Portion of Long Term Debt	2,143	Increase due to higher long-term debt repayments within the coming year.
Consumers' Deposits and Advances for Construction	652	Increase due to additional customer deposits of \$0.7 million.
Long-Term Debt	28,143	Increase due to proceeds of long term issuance of \$40 million partially offset by principal payments made on the Company's Senior Unsecured Notes in the Second Quarter 2019.
Share Premium	1,725	The Company issued 126,276 shares through its share purchase plans.
Retained Earnings	619	Increase due to net earnings for the period of \$12.5 million offset by Class A dividends of \$11.7 million and Class B dividends of \$0.2 million.

## Capital Resources

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

To help ensure access to capital, the Company targets a long-term capital structure comprising 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 Class A Ordinary Share rights offering that occurred in 2015 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 June 30, 2019, the Company was in compliance with all debt covenants.

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

<b>Capital Structure</b>				
	<b>June 30, 2019</b>	<b>%</b>	<b>December 31, 2018</b>	<b>%</b>
	<b>(\$ thousands)</b>		<b>(\$ thousands)</b>	
Total debt	<b>285,299</b>	<b>55</b>	285,013	55
Shareholder's equity	<b><u>232,748</u></b>	<b><u>45</u></b>	<u>230,382</u>	<u>45</u>
<b>Total</b>	<b>518,047</b>	<b>100</b>	515,395	100

The change in the Company's capital structure between December 31, 2018 and June 30, 2019 was driven by an increase in total debt and equity. The increase in total debt is a result of the increase in long-term debt partially offset by the payment of long-term and short-term debt in Q2 2019.

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.

### **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 the liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at June 30, 2019.

### **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 2019 is 5%. This compares to assumed long-term rates of return of 5% used during 2018. 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 2018 was 3% (2017: gain of 6%).

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 2019 is 4.2% compared to the discount rate assumed during 2018 of 3.7%.

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

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

### **Changes in Accounting Policies**

The Consolidated Interim Financial Statements have been prepared following the same accounting policies and methods as those used to prepare the Company’s 2018 annual audited consolidated financial statements, except as described in Note 3 of the Condensed Consolidated Interim Financial Statements.

## Quarterly Results

The table “Quarterly Results” summarises unaudited quarterly information for each of the eight quarters ended September 30, 2017 through June 30, 2019. 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
June 30, 2019	48,037	7,943	7,830	0.24	0.24
March 31, 2019	47,345	4,542	4,429	0.13	0.13
December 31, 2018	51,986	7,882	7,254	0.22	0.22
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

## Disclosure Controls and Procedures

The President and Chief Executive Officer (“CEO”) and the Vice President 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, 2018; 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 June 30, 2019.

## 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 2013 Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on the assessment, it was concluded that CUC's ICFR are adequately designed and operating effectively as of June 30, 2019.

## Outlook

During the fourth quarter of 2018, the Company submitted its 2019-2023 CIP in the amount of \$273 million to the OfReg for approval. The Company has also submitted an additional \$77 million in proposed projects for battery storage and grid enhancement for review by the OfReg. These projects are expected to be financed directly by consumers outside of the Company's rate cap and adjustment mechanism and have the potential to provide significant financial or service benefits to consumers. The proposed 2019-2023 Capital Investment Plan is expected to be finalized during the third quarter of 2019.

In January 2019, the OfReg confirmed its acceptance of the Integrated Resource Plan ("IRP") as an energy roadmap to inform future utility developments. The IRP calls for new technologies to be introduced including significant amounts of solar and wind power, procurement of natural gas and conversion of existing generating units to operate as dual fuel engines, deployment of appropriate amounts of energy storage and integration of municipal solid waste to energy plant. The IRP analyzed various resource portfolios against cost, price stability, reliability, and environmental performance, among other goals. 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.

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 August 1, 2019 the Company had issued and outstanding 33,358,618 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 August 1, 2019 is as follows.

<b>Conversion of Securities into Common Shares</b> As at August 1, 2019	<b>Number of Common Shares</b>
(Unaudited)	
Stock Options	26,000

Additional information, including CUC's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.cuc-cayman.com](http://www.cuc-cayman.com).



## Condensed Consolidated Interim Balance Sheets

(expressed in thousands of United States Dollars)

Unaudited	Note	As at June 30, 2019	As at December 31, 2018
<b>Assets</b>			
<i>Current Assets</i>			
Cash		5,096	8,686
Accounts Receivable, net	7	14,576	12,599
Related Party Receivables	13	6	6
Regulatory Assets	8	21,892	21,434
Inventories		2,929	3,451
Prepayments		645	2,331
<b>Total Current Assets</b>		<b>45,144</b>	<b>48,507</b>
Property, Plant and Equipment, net		520,487	511,130
Intangible Assets, net		3,073	3,106
Other Assets		366	11
<b>Total Assets</b>		<b>569,070</b>	<b>562,754</b>
<b>Liabilities and Shareholders' Equity</b>			
<i>Current Liabilities</i>			
Bank Overdraft		8,989	1,993
Accounts Payable and Accrued Expenses		29,085	33,773
Related Party Payables	13	-	5
Regulatory Liabilities	8	596	345
Short-Term Debt		-	30,000
Current Portion of Long-Term Debt	10	14,857	12,714
Current Portion of Lease Liability	6	62	-
Consumers' Deposits and Advances for Construction		10,088	9,436
<b>Total Current Liabilities</b>		<b>63,677</b>	<b>88,266</b>
Defined Benefit Pension Liability		1,121	1,122
Long-Term Debt	10	270,442	242,299
Other Long-Term Liabilities		1,082	685
<b>Total Liabilities</b>		<b>336,322</b>	<b>332,372</b>
<b>Commitments and Contingency</b>	14, 15		
<b>Shareholders' Equity</b>			
Share Capital		2,236	2,228
Share Premium		128,095	126,370
Additional Paid-in Capital		467	467
Retained Earnings		103,103	102,484
Accumulated Other Comprehensive Loss		(1,153)	(1,167)
<b>Total Shareholders' Equity</b>		<b>232,748</b>	<b>230,382</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>569,070</b>	<b>562,754</b>

See accompanying Notes to Condensed Consolidated Interim Financial Statements

**Condensed Consolidated Interim Statements of Earnings***(expressed in thousands of United States Dollars, except basic and diluted earnings per ordinary share)*

<b>Unaudited</b>	<b>Note</b>	<b>Three Months Ended June 30, 2019</b>	<b>Three Months Ended June 30, 2018</b>	<b>Six Months Ended June 30, 2019</b>	<b>Six Months Ended June 30, 2018</b>
<b>Operating Revenues</b>					
Electricity Sales	5	23,671	22,486	43,950	40,465
Fuel Factor	5	22,994	24,178	49,092	46,896
Renewables	5	1,372	1,099	2,340	1,876
<i>Total Operating Revenues</i>		<b>48,037</b>	47,763	<b>95,382</b>	89,237
<b>Operating Expenses</b>					
Power Generation		25,538	26,265	53,741	50,679
General and Administration		2,060	2,088	4,115	4,061
Consumer Services		764	807	1,506	1,405
Transmission and Distribution		1,167	1,190	2,067	2,355
Depreciation		8,817	8,186	17,705	16,480
Maintenance		1,295	1,366	2,661	3,007
Amortization of Intangible Assets		179	156	361	326
<i>Total Operating Expenses</i>		<b>39,820</b>	40,058	<b>82,156</b>	78,313
<b>Operating Income</b>					
		<b>8,217</b>	7,705	<b>13,226</b>	10,924
<b>Other (Expenses)/Income</b>					
Finance Charges	11	(1,579)	(1,994)	(3,457)	(4,178)
Foreign Exchange Gain	12	410	394	881	1,073
Other Income		895	937	1,835	1,888
<i>Total Net Other (Expenses)/Income</i>		<b>(274)</b>	(663)	<b>(741)</b>	(1,217)
<b>Net Earnings for the Period</b>					
		<b>7,943</b>	7,042	<b>12,485</b>	9,707
<b>Preference Dividends Paid- Class B</b>					
		<b>(113)</b>	(113)	<b>(226)</b>	(226)
<b>Earnings on Class A Ordinary Shares</b>					
		<b>7,830</b>	6,929	<b>12,259</b>	9,481
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)					
		<b>33,282</b>	33,045	<b>33,308</b>	33,073
<b>Earnings per Class A Ordinary Share</b>					
Diluted Earnings per Class A Ordinary Share		<b>0.24</b>	0.21	<b>0.37</b>	0.29
Dividends Declared per Class A Ordinary Share		<b>0.175</b>	0.175	<b>0.350</b>	0.345

*See accompanying Notes to Condensed Consolidated Interim Financial Statements*

**Condensed Consolidated Interim Statements of Comprehensive Income**  
*(expressed in thousands of United States Dollars)*

<b>Unaudited</b>	<b>Three Months Ended June 30, 2019</b>	<b>Three months Ended June 30, 2018</b>	<b>Six Months Ended June 30, 2019</b>	<b>Six months Ended June 30, 2018</b>
<b>Net Earnings for the Period</b>	<b>7,943</b>	7,042	<b>12,485</b>	9,707
Other Comprehensive Income:				
Amortization of Net Actuarial Loss	7	7	14	14
Total Other Comprehensive Income	7	7	14	14
<b>Comprehensive Income</b>	<b>7,950</b>	7,049	<b>12,499</b>	9,721

*See accompanying Notes to Condensed Consolidated Interim Financial Statements*

## 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 (\$)
<b>As at December 31, 2018</b>	33,232	1,978	250	126,370	467	(1,167)	102,484	230,382
Net earnings	-	-	-	-	-	-	12,485	12,485
Common share issuance and stock options plans	126	8	-	1,725	-	-	-	1,733
Defined benefit plans	-	-	-	-	-	14	-	14
Dividends on common shares	-	-	-	-	-	-	(11,640)	(11,640)
Dividends on preference shares	-	-	-	-	-	-	(226)	(226)
<b>As at June 30, 2019</b>	33,358	1,986	250	128,095	467	(1,153)	103,103	232,748
<b>As at December 31, 2017</b>	32,995	1,964	250	123,376	467	(1,302)	99,668	224,423
Net earnings	-	-	-	-	-	-	9,707	9,707
Common share issuance and stock options plans	120	7	-	1,475	-	-	-	1,482
Defined benefit plans	-	-	-	-	-	14	-	14
Dividends on common shares	-	-	-	-	-	-	(11,391)	(11,391)
Dividends on preference shares	-	-	-	-	-	-	(226)	(226)
<b>As at June 30, 2018</b>	33,115	1,971	250	124,851	467	(1,288)	97,758	224,009

*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 June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
<i>Operating Activities</i>				
Net Earnings for the period	7,943	7,042	12,485	9,707
Items not affecting cash:				
Depreciation	8,817	8,186	17,705	16,480
Amortization of Intangible Assets	179	156	361	326
Amortization of Deferred Financing Costs	30	37	60	72
	<b>16,969</b>	15,421	<b>30,611</b>	26,585
Net Changes in Working Capital Balances Related to Operations:	<b>(1,635)</b>	(2,502)	<b>(6,676)</b>	2,044
Net Change in Regulatory Deferrals	<b>(2,254)</b>	(2,702)	<b>(207)</b>	(5,093)
<i>Cash flow related to operating activities</i>	<b>13,080</b>	10,217	<b>23,728</b>	23,536
<i>Investing Activities</i>				
Purchase of Property, Plant and Equipment	<b>(11,970)</b>	(14,478)	<b>(23,772)</b>	(24,264)
Proceeds from Sale of Property, Plant and Equipment	18	-	18	45
Costs related to Intangible Assets	<b>(210)</b>	(144)	<b>(328)</b>	(270)
Contributions in Aid of Construction	128	1,100	128	1,111
<i>Cash flow related to investing activities</i>	<b>(12,034)</b>	(13,522)	<b>(23,954)</b>	(23,378)
<i>Financing Activities</i>				
Proceeds from Long-Term Debt Financing	40,000	-	40,000	-
(Repayment of)/ Proceeds from Short-Term Debt	<b>(30,000)</b>	20,000	<b>(30,000)</b>	20,000
Repayment of Long-Term Debt	<b>(9,714)</b>	(13,714)	<b>(9,714)</b>	(13,714)
Increase in Bank Overdraft	4,002	3,470	6,997	3,470
Dividends Paid	<b>(5,937)</b>	(5,895)	<b>(12,380)</b>	(12,110)
Net Proceeds from Share Issues	924	757	1,733	1,482
<i>Cash flow related to financing activities</i>	<b>(725)</b>	4,618	<b>(3,364)</b>	(872)
Increase / (Decrease) in net cash	321	1,313	<b>(3,590)</b>	(714)
Cash - Beginning of the period	4,775	5,231	8,686	7,258
Cash - End of the period	5,096	6,544	5,096	6,544
Supplemental disclosure of cash flow information:				
Interest paid during the period	6,294	6,625	6,638	6,637

*See accompanying Notes to Condensed Consolidated Interim Financial Statements*

*Unaudited – June 30, 2019 (expressed in thousands of United States dollars unless otherwise stated)*

## **1. Nature of Operations and Condensed Consolidated Interim 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 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, 2019, following review and approval by the OfReg, the Company increased its base rates by 0.9%. This increase was a result of the 2018 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 2018. 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 0.9% 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 1.12%. 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, they do not include all information and notes required by US GAAP for annual financial statements and should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2018.

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**

#### *Leases*

Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-02, *Leases*, that requires lessees to recognize a right-of-use asset and lease liability for all leases with a lease term greater than 12 months, along with additional disclosures (Note 6).

At lease inception, the right-of-use asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance. Future lease payments include both lease components (e.g., rent and insurance costs) and non-lease components (e.g., common area maintenance costs), which CUC accounts for as a single lease component. The present value is calculated using the rate implicit in the lease or a lease-specific secured interest rate based on the remaining lease term. Renewal options are included in the lease term when it is reasonably certain that the option will be exercised.

Leases with a term of 12 months or less are not recorded on the balance sheet. Instead, they are recognized as lease expense on a straight-line basis over the lease term.

CUC applied the transition provisions of the new standard as of the adoption date and did not retrospectively adjust prior periods in accordance with the modified retrospective approach. CUC elected a package of implementation options, referred to as practical expedients, that allowed it to not reassess: (i) whether existing contracts, including land easements, are or contain a lease; (ii) the classification of existing leases; or (iii) the initial direct costs for existing leases. CUC also utilized the hindsight practical expedient to determine the lease term. Upon adoption, CUC did not identify or record an adjustment to the opening balance of retained earnings, and there was no impact on net earnings or cash flows.

#### *Hedging*

Effective January 1, 2019, the Company adopted ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which better aligns risk management activities and financial reporting for hedging relationships through changes to designation, measurement, presentation and disclosure guidance. Adoption did not have a material impact on the Interim Financial Statements and related disclosures.

#### *Fair Value Measurement Disclosures*

Effective January 1, 2019, the Company adopted elements of ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, that are allowed to be early adopted. This ASU improves the effectiveness of financial statement note disclosures by clarifying what is required and important to users of the financial statements. The partial adoption of this ASU removed the following disclosures: (a) the amount of, and reasons for, transfers between level 2 and level 3 of the fair value hierarchy; (b) the policy for timing of transfers between levels; and (c) the valuation processes for level 3 fair value measurements.

#### **4. Future Accounting Policies**

##### *Measurement of Credit Losses on Financial Instruments*

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, issued in June 2016, is effective for CUC January 1, 2020 and is to be applied on a modified retrospective basis. 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. Adoption is not expected to have a material impact on the consolidated financial statements and related disclosures.

*Changes to the Disclosure Requirements for Defined Benefit Plans*

ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, issued in August 2018, is effective for CUC January 1, 2021 and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined pension or other post-retirement plans and clarifies disclosure requirements. In particular, it removes the following disclosures: (a) the amounts in accumulated other comprehensive income expected to be recognized as components of net period benefit costs over the next fiscal period; (b) the amount and timing of plan assets expected to be returned to the employer; and (c) the effects of a one-percentage-point change on the assumed health care costs and the change in rates on service cost, interest cost and the benefit obligation for post-retirement health care benefits. CUC plans to early adopt this update in the 2019 annual consolidated financial statements.

**5. Operating Revenues**

<b>Operating Revenues</b>				
	<b>Three Months Ended</b>	<b>Three Months Ended</b>	<b>Six Months Ended</b>	<b>Six Months Ended</b>
(\$ thousands)	<b>June 30, 2019</b>	<b>June 30, 2018</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>
<b>Electricity Sales Revenues</b>				
Residential	12,099	10,689	21,693	19,482
Commercial	11,349	11,594	21,813	20,624
Other (street lighting etc.)	223	203	444	359
<b>Total Electricity Sales Revenues</b>	<b>23,671</b>	<b>22,486</b>	<b>43,950</b>	<b>40,465</b>
<b>Fuel Factor</b>	<b>22,994</b>	<b>24,178</b>	<b>49,092</b>	<b>46,896</b>
<b>Renewables</b>	<b>1,372</b>	<b>1,099</b>	<b>2,340</b>	<b>1,876</b>
<b>Total Operating Revenues</b>	<b>48,037</b>	<b>47,763</b>	<b>95,382</b>	<b>89,237</b>

*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 Customer Owned Renewable Energy ("CORE") programme and Entropy which are passed through to consumers on a two-month lag basis with no mark-up.

## 6. Leases

When a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a right-of-use asset and lease liability are recognized. The Company measures the right-of-use asset and lease liability at the present value of future lease payments excluding variable payments based on usage or performance. The Company calculates the present value using a lease-specific secured interest rate based on the remaining lease term. CUC has a lease agreement with lease components (e.g. rent and insurance costs) and non-lease components (e.g. common area maintenance costs), which are accounted for as a single lease component. CUC includes options to extend a lease in the lease term when it is reasonably certain that the option will be exercised. Leases with an initial term of twelve months or less are not recorded on the balance sheet but are recognized as lease expense on a straight-line basis over the lease term.

CUC leases office space under a lease agreement that expired on June 30, 2019 and is currently being renewed for an additional 5 years. The lease agreement includes rental payments adjusted periodically for inflation or require the Company to pay insurance, maintenance, or other operating expenses associated with the lease premises.

The following table details supplemental balance sheet information related to CUC's operating lease:

Operating Leases		
(\$ thousands)	Classification	As at June 30, 2019
Operating Lease Assets	Other Assets	354
Current Portion Lease Liability	Current Portion of Lease Liability	62
Noncurrent Operating Lease Liability	Other Long-Term Liabilities	294

The following table presents the components of CUC's lease cost recorded in the Condensed Consolidated Interim Statement of Earnings.

Lease Cost			
(\$ thousands)	Classification	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Operating Lease Costs	Operating Expenses – Consumer Services	22	45
Variable Lease Costs	Operating Expenses – Consumer Services	1	2
<b>Total Lease Costs</b>		<b>23</b>	<b>47</b>

Operating lease cost for Q2 2019 approximated \$0.02 million.

As of June 30, 2019, the Company had the following future minimum lease payments:

<b>Future Minimum Lease Payments</b>	
(\$ thousands)	<b>Operating Lease</b>
2019	39
2020	79
2021	80
2022	81
2023	83
Thereafter	42
<b>Total</b>	<b>404</b>
Less: imputed Interest	(49)
Present Value of Lease Liability	355

Note: Minimum lease payments exclude payments to lessor for variable insurance and common area maintenance.

## 7. **Accounts Receivable, net**

<b>Accounts Receivable</b>		
(\$ thousands)	<b>As at June 30, 2019</b>	<b>As at December 31, 2018</b>
Billings to consumers	15,134	12,637
Other receivables	538	1,079
Allowance for doubtful accounts	(1,096)	(1,117)
<b>Total Accounts Receivable, net</b>	<b>14,576</b>	<b>12,599</b>

### *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.

## 8. **Regulatory Assets and Liabilities**

<b>Regulatory Assets and Liabilities</b>			
(\$ thousands)			
<b>Asset/Liability</b>	<b>Description</b>	<b>As at June 30, 2019</b>	<b>As at December 31, 2018</b>
Regulatory Assets	Fuel Tracker Account	21,118	20,135
Regulatory Assets	Miscellaneous Regulatory Assets	178	191
Regulatory Assets	Government & Regulatory Tracker Account	-	349
Regulatory Assets	Demand rate	596	759
<b>Total Regulatory Assets</b>		<b>21,892</b>	<b>21,434</b>
Regulatory Liabilities	Derivative contracts	(198)	(345)
Regulatory Liabilities	Government & Regulatory Tracker Account	(398)	-
<b>Total Regulatory Liabilities</b>		<b>(596)</b>	<b>(345)</b>

## 9. 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.

<b>Share Options</b>				
	<b>Six Months Ended June 30, 2019</b>	<b>Six Months Ended June 30, 2019</b>		
	<b>Number of Options</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Contractual Term (years)</b>	<b>Aggregate Intrinsic Value (\$ thousands)</b>
Outstanding at Beginning of Period	45,000	9.66	3.23	-
Granted	-	-	-	-
Exercised	(19,000)	9.66	-	-
Forfeited/Cancelled	-	-	-	-
Expired	-	-	-	-
Outstanding, End of Period	<u>26,000</u>	<u>9.66</u>	<u>2.73</u>	-
<b>Vested, End of the Period</b>	<b>26,000</b>	<b>9.66</b>	<b>2.73</b>	-

Under the fair value method, the compensation expense was \$nil for Q2 2019 (June 30, 2018: \$nil).

### Performance Share Unit (“PSU”) Plan:

In September 2013, the Board of Directors approved a PSU plan under which officers and certain employees of the Company would receive PSUs. Each PSU represents a unit with an underlying value which is based on the value of one common share relative to the S&P/TSX Utilities Index.

PSU’s outstanding as at June 30, 2019 relate to grants in 2017 in the amount of 28,235, 2018 in the amount of 29,151 and 2019 in the amount of 38,692. The vesting period of the grant is three years, at which time a cash payment may be made to plan participants after evaluation by the Board of Directors of the achievement of certain payment criteria.

PSU Compensation expense was \$0.2 million for Q2 2019 (Q2 2018: \$0.1 million), resulting in a corresponding increase to Other Long-Term Liabilities.



## 10. 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 June 30, 2019. The estimated fair values of the Company's financial instruments, including derivative financial instruments, are as follows:

Financial Instruments				
(\$ thousands)	As at June 30, 2019		As at December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt, including Current Portion	285,299	320,466	255,014	261,989
Fuel Option Contracts	198	198	345	345

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 transfers between levels for the period ended June 30, 2019.

## 11. Finance Charges

The composition of finance charges were as follows:

<b>Finance Charges</b>				
(\$ thousands)	<b>Three Months Ended June 30, 2019</b>	<b>Three Months Ended June 30, 2018</b>	<b>Six Months Ended June 30, 2019</b>	<b>Six Months Ended June 30, 2018</b>
Interest costs – long-term debt	3,121	3,198	6,131	6,467
Other interest costs	303	124	677	173
AFUDC	<b>(1,845)</b>	<b>(1,328)</b>	<b>(3,351)</b>	<b>(2,462)</b>
<b>Finance Charges</b>	<b>1,579</b>	<b>1,994</b>	<b>3,457</b>	<b>4,178</b>

## 12. Foreign Exchange

The closing rate of exchange on June 28, 2019 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn\$1.3087 per US\$1.00 (December 2018: Cdn\$1.3642). 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 June 28, 2019 for conversion of Cayman Islands dollars into Canadian dollars was Cdn\$1.5704 per CI\$1.00 (December 29, 2018: Cdn\$1.6370).

## 13. 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 2019 and 2018 are summarized in the following table.

<b>Related Party Transactions</b>		<b>As at June 30, 2019</b>	<b>As at December 31, 2018</b>
<i>(in thousands)</i>			
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)		-	6
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)		6	-
<b>Total Related Party Receivables</b>		<b>6</b>	<b>6</b>
Payables to Fortis Inc. (the company's majority shareholder)		-	5
<b>Total Related Party Payables</b>		<b>-</b>	<b>5</b>

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

#### 14. Commitments

As at June 30, 2019, the Company's consolidated commitments in each of the next five years and for periods thereafter are as follows:

<b>Commitments</b>					
(\$ thousands)			2020-	2022-	2024
	<b>Total</b>	<b>2019</b>	<b>2021</b>	<b>2023</b>	<b>Onward</b>
Letter of Guarantee	500	500			
Lease Liability	404	39	159	164	42
<b>Commitments</b>	<b>904</b>	<b>539</b>	<b>159</b>	<b>164</b>	<b>42</b>

#### 15. Contingency

On July 11, 2017 the OfReg issued ICT 2017-1 Determination Pole Attachment Reservation Fees. The OfReg's decision was that DataLink's charge of reservation fees in the manner provided for in the current contracts was, in its view, contrary to the Information and Communication Technology Authority Law (2011 Revision). Under the determination, DataLink was required to remove references to reservation fees in its contracts with other telecomm providers and negotiate a refund to the telecoms of fees charged, including fees charged prior to 2017. DataLink was ordered 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 leave to apply for Judicial Review from the Cayman Islands Grand Court. Both the stay and leave to apply for Judicial Review were granted on August 11, 2017. A Grand Court Hearing was held over five days beginning on June 4, 2018. At the end of first quarter 2019 DataLink had fully reserved for potential bad debts based on the OfReg determination.

On July 25, 2019, the Company was notified of the Court's decision in the Company's favour to quash OfReg's determination. The full judgement is currently being reviewed and this process is expected to be completed during the Third Quarter of 2019. The Company has not completed its assessment of the impact of this judgement on the financial statements.

## **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: [inquiries@astfinancial.com](mailto:inquiries@astfinancial.com)

#### **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](mailto:investor@cuc.ky)  
Website: [www.cuc-cayman.com](http://www.cuc-cayman.com)

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  
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