



February 19 2015

**Grand Cayman, Cayman Islands**

**CUC Announces Unaudited Fourth Quarter and Twelve Month Results for the Period Ended December 31, 2014**

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

**Grand Cayman, Cayman Islands-** Caribbean Utilities Company, Ltd. (TSX: CUP.U) (“CUC” or “the Company”) announced today its unaudited results for the Fourth Quarter and Twelve Months ended December 31, 2014 (all figures in United States dollars).

Net earnings for the three months ended December 31, 2014 (“Fourth Quarter 2014”) were \$5.4 million, a \$0.4 million decrease when compared to \$5.8 million for the three months ended December 31, 2013 (“Fourth Quarter 2013”). This decrease is attributable to a weather-driven 3% decline in kiloWatt-hour (“kWh”) sales, additional temporary generation costs and higher consumer services expenses in the Fourth Quarter 2014. These items were partially offset by lower maintenance costs for the Fourth Quarter 2014 when compared to the Fourth Quarter 2013.

Net earnings for the twelve months ended December 31, 2014 were \$20.8 million, a \$0.4 million increase from net earnings of \$20.4 million for the twelve months ended December 31, 2013. This increase is attributable to a 2% kWh sales growth, lower depreciation and maintenance expenses and higher other income. These items were partially offset by higher consumer services expenses, driven by a one-time adjustment to increase the Company’s allowance for doubtful accounts during the twelve months ended December 31, 2014.

**Caribbean Utilities Company, Ltd.**

457 North Sound Road, P.O. Box 38, Grand Cayman KY1-1101, CAYMAN ISLANDS  
Tel: (345) 949-5200, Fax: (345) 949-5203, Website: [www.cuc-cayman.com](http://www.cuc-cayman.com)



For the Fourth Quarter 2014, kWh sales were 135.8 million, a decrease of 4.5 million kWh, or 3%, when compared to 140.3 million for the Fourth Quarter 2013. Sales were negatively impacted by cooler weather conditions that affected customer air conditioning usage. The average monthly temperature for the Fourth Quarter 2014 was 3.3 degrees Fahrenheit lower than the average monthly temperature experienced during the Fourth Quarter 2013.

For the twelve months ended December 31, 2014, kWh sales were 564.2 million, an increase of 8.5 million kWh, or 2%, when compared to 555.7 million kWh for the year ended December 31, 2013. Annual sales were positively impacted by a 2% growth in customer numbers. Total customers as at December 31, 2014 were 27,784, compared to 27,364 customers as at December 31, 2013.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2014 were \$4.8 million, or \$0.16 per Class A Ordinary Share, as compared to \$5.2 million, or \$0.18 per Class A Ordinary Share for the Fourth Quarter 2013. After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the twelve months ended December 31, 2014 were \$19.9 million, or \$0.68 per Class A Ordinary Share as compared to \$19.5 million, or \$0.68 per Class A Ordinary Share for the twelve months ended December 31, 2013. The weighted average Class A Ordinary Shares outstanding were 29,130,536 and 28,891,552 for the twelve months ended December 31, 2014 and December 31, 2013, respectively.



President and CEO, Mr. Richard Hew, says, “In spite of the decrease in earnings and kilowatt hour sales, the Fourth Quarter 2014 recorded overall positive results for the Company. The announcement of CUC’s winning of the bid for firm generation as well as progress being made by one of the renewable energy providers to develop a 5 megawatts solar power plant, are highlights of the period under review. The Company remains focussed on delivering a cost-effective, safe and reliable service to its customers while at the same time improving efficiency and managing costs.”

During the Fourth Quarter 2014, the Electricity Regulatory Authority (“ERA”) announced that CUC was the successful bidder for new generation capacity. The Company will develop and operate a new 39.7 megawatts (“MW”) diesel power plant including two 18.5 MW diesel generating units and a 2.7 MW waste heat recovery steam turbine. The project cost is estimated at \$85 million and the plant will be commissioned no later than June 2016.

Mr. Hew added, “Over the next year, the Company will see significant activity associated with the development of the new diesel power plant and the waste heat recovery steam turbine. Upon completion, the plant will boast the most fuel efficient generation ever installed by CUC which will bring increased reliability and lower cost to our consumers.”

As a result of the Company’s successful bid to supply additional generation, in November 2014 the ERA issued a new Generation license to the Company which replaces the Generation Licence granted in April 2008. The 2014 Generation license will expire in November 2039. The terms and conditions of the new Generation Licence are not materially different from the terms and conditions of the 2008 Generation Licence.



During the Fourth Quarter 2014, the ERA approved CUC's 2015-2019 Capital Investment Plan ("CIP") in the amount of \$234 million, including generation expansion costs. The ERA also approved the Company's new Customer Service Code ("CSC"). The CSC sets out the terms and conditions of the supply of electricity to the Company's customers, as well as the standards for the level of service which CUC is required to provide to its customers. The new CSC provides for an increase in various customer service fees and the application of a Finance Charge which will be levied on overdue customer accounts beyond 60 days. This charge took effect on January 1, 2015.

The Company's average price per imperial gallon ("IG") of fuel for the Fourth Quarter 2014 decreased to \$4.17 from \$4.70 for the Fourth Quarter 2013. The Company's average price per IG of fuel for the twelve months ended December 31, 2014 decreased to \$4.56 from \$4.74 for the twelve months ended December 31, 2013.

With the price of fuel continuing to trend downwards, customers are expected to see a reduction in their utility bills in early 2015. The average Fuel Cost Charge rate per kWh charged to consumers for the Fourth Quarter 2014 was \$0.28, a 3% decrease when compared to \$0.29 per kWh for the Fourth Quarter 2013. Additional reductions to the fuel cost charge rate per kWh are expected to occur due to a 33% decrease in the customs duties levied on diesel fuel imports by the Cayman Islands Government which went into effect on January 1, 2015. CUC passes through 100% of fuel costs to consumers on a two-month lag basis without mark-up.

CUC believes that there are economic and environmental benefits to be derived from renewable energy sources. One of the potential renewable energy providers, International Electric Power ("IEP"), applied for and received from the Cayman Islands Planning Department permission to start the development of a 5MW solar power plant. A draft Power Purchase Agreement between CUC and IEP is now before the ERA for review.



CUC's Fourth Quarter Report for the period ended December 31, 2014 is attached to this release and incorporated by reference.

This report contains a detailed discussion of CUC's unaudited 2014 Fourth Quarter results, the Cayman Islands economy, liquidity and capital resources, capital expenditures and the business risks facing the Company. The release and Fourth Quarter Report can be accessed at [www.cuc-cayman.com](http://www.cuc-cayman.com) (Investor Relations/Press Releases) and at [www.sedar.com](http://www.sedar.com).

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 [www.cuc-cayman.com](http://www.cuc-cayman.com).

*Certain statements in the report, 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 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.*

Contact: Letitia Lawrence  
Vice President Finance and Chief Financial Officer  
Phone: (345) 914-1124  
E-Mail: [llawrence@cuc.ky](mailto:llawrence@cuc.ky)

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## FINANCIAL AND OPERATIONAL HIGHLIGHTS

The following Fourth Quarter 2014 press release should be read in conjunction with the Caribbean Utilities Company Ltd. ("CUC" or the "Company") Management's Discussion and Analysis ("MD&A") and audited consolidated financial statements and notes thereto for the year ended December 31, 2013 in the Company's 2013 Annual Report, with 2012 comparatives, prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). Financial information in this Fourth Quarter 2014 press release has been prepared in accordance with US GAAP and following the same accounting policies and methods as those used in preparing the most recent interim unaudited consolidated financial statements. The financial statements and analysis in this press release were approved by the Audit Committee.

### Financial and Operational Highlights

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

|                                     | Three<br>Months<br>Ended<br>December<br>31, 2014 | Three<br>Months<br>Ended<br>December<br>31, 2013 | Twelve<br>Months<br>Ended<br>December<br>31, 2014 | Twelve<br>Months<br>Ended<br>December<br>31, 2013 | Change  | %<br>Change |
|-------------------------------------|--|--|---|---|---------|-------------|
| Electricity Sales Revenues          | 17,835   | 18,109   | 73,408  | 71,131  | 2,277   | 3%          |
| Fuel Factor Revenues                | 40,357   | 40,692   | 158,297   | 155,089   | 3,208   | 2%          |
| Operating Revenues                  | 58,192   | 58,801   | 231,705   | 226,220   | 5,485   | 2%          |
| Fuel and Lube Costs                 | 40,357   | 40,692   | 158,297   | 155,089   | 3,208   | 2%          |
| Other Operating Expenses            | 11,554   | 11,432   | 48,080  | 45,991  | 2,089   | 5%          |
| Total Operating Expenses            | 51,911   | 52,124   | 206,377   | 201,080   | 5,297   | 3%          |
| Earnings for the Period             | 5,397  | 5,760  | 20,815  | 20,422  | 393     | 2%          |
| Cash Flow from Operating Activities | 9,864  | 11,403   | 46,780  | 49,940  | (3,160) | -6%         |
| <i>Per Class A Ordinary Share:</i>  |  |  |   |   |         |             |
| Basic Earnings                      | 0.16   | 0.18   | 0.68  | 0.68  | -       | 0%          |
| Dividends Paid                      | 0.165  | 0.165  | 0.660   | 0.660   | -       | 0%          |
| Total Customers (#)                 | 27,784   | 27,364   | 27,784  | 27,364  | 420     | 2%          |
| Total Employees (#)*                | 199  | 190  | 199   | 190   | 9       | 5%          |
| Customers per Employee (#)          | 140  | 144  | 140   | 144   | (4)     | -3%         |
| System Availability (%)             | 99.97  | 99.96  | 99.96   | 99.96   | -       | 0%          |
| Peak Load Gross (MW)                | 92.7   | 93.4   | 99.7  | 97.4  | 2.3     | 2%          |
| <i>Millions of kWh:</i>             |  |  |   |   |         |             |
| Net Generation                      | 145.5  | 150.3  | 604.7   | 595.6   | 9.1     | 2%          |
| Kilowatt-Hour Sales                 | 135.8  | 140.3  | 564.2   | 555.7   | 8.5     | 2%          |
| Sales per Employee                  | 0.68   | 0.74   | 2.84  | 2.92  | (0.08)  | -3%         |

\*Total full time CUC employees

## EARNINGS

Net earnings for the three months ended December 31, 2014 ("Fourth Quarter 2014") were \$5.4 million, a \$0.4 million decrease when compared to \$5.8 million for the three months ended December 31, 2013 ("Fourth Quarter 2013"). This decrease is attributable to a 3% decline in kiloWatt-hour ("kWh") sales, temporary generation costs and higher consumer services expenses. These items were partially offset by lower maintenance costs for the Fourth Quarter 2014 when compared to the Fourth Quarter 2013.

Net earnings for the twelve months ended December 31, 2014 were \$20.8 million, a \$0.4 million increase from net earnings of \$20.4 million for the twelve months ended December 31, 2013. This increase is attributable to a 2% increase in kWh sales, 1.5% and 1.8% base rate increases effective June 1, 2014 and June 1, 2013 respectively, lower depreciation and maintenance expenses and increased other income. These items were partially offset by higher

consumer service expenses, driven by a one-time adjustment to increase the Company's allowance for doubtful accounts.

### EARNINGS PER SHARE

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2014 were \$4.8 million, or \$0.16 per Class A Ordinary Share, as compared to \$5.2 million, or \$0.18 per Class A Ordinary Share for the Fourth Quarter 2013. The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average Class A Ordinary Shares outstanding were 29,196,821 and 28,927,000 for the Fourth Quarter 2014 and the Fourth Quarter 2013, respectively.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the twelve months ended December 31, 2014 were \$19.9 million, or \$0.68 per Class A Ordinary Share as compared to \$19.5 million, or \$0.68 per Class A Ordinary Share for the twelve months ended December 31, 2013. The weighted average Class A Ordinary Shares outstanding were 29,130,536 and 28,891,552 for the twelve months ended December 31, 2014 and December 31, 2013, respectively.

### SALES

For the Fourth Quarter 2014, kWh sales were 135.8 million a decrease of 4.5 million kWh or 3% when compared to 140.3 million for the Fourth Quarter 2013. Sales were negatively impacted by cooler weather conditions that affected customer air conditioning usage. The average monthly temperature for the Fourth Quarter 2014 was 79.4 degrees, 3.3 degrees Fahrenheit lower than the average monthly temperature experienced during the Fourth Quarter 2013 of 82.7 degrees.

KiloWatt-hour sales for the twelve months ended December 31, 2014 were 564.2 million kWh, an increase of 8.5 million kWh or 2% when compared to 555.7 million kWh for the twelve months ended December 31, 2013. Sales were positively impacted by a 2% growth in customer numbers.

Total customers as at December 31, 2014 were 27,784, an increase of 2% compared to 27,364 customers as at December 31, 2013.

The following tables present sales and customer highlights:

| <b>Customers (#)</b>   |                          |                          |                 |
|------------------------|--------------------------|--------------------------|-----------------|
|                        | <b>December 31, 2014</b> | <b>December 31, 2013</b> | <b>Change %</b> |
| Residential            | <b>23,685</b>            | 23,358                   | 1%              |
| Commercial             | <b>4,099</b>             | <u>4,006</u>             | 2%              |
| <b>Total Customers</b> | <b>27,784</b>            | 27,364                   | 2%              |

| <b>Sales</b>                  |   |   |  |  |               |                 |
|-------------------------------|---|---|--|--|---------------|-----------------|
| (thousands kWh)               |   |   |  |  |               |                 |
|                               | <b>Three Months Ended December 31, 2014</b> | <b>Three Months Ended December 31, 2013</b> | <b>Twelve Months Ended December 31, 2014</b> | <b>Twelve Months Ended December 31, 2013</b> | <b>Change</b> | <b>% Change</b> |
| Residential                   | <b>63,315</b>                               | 66,792                                      | <b>266,742</b>                               | 261,002                                      | 5,740         | 2%              |
| Commercial                    | <b>70,785</b>                               | 71,789                                      | <b>290,745</b>                               | 288,114                                      | 2,631         | 1%              |
| Other (street lighting, etc.) | <b>1,683</b>                                | <u>1,682</u>                                | <b>6,740</b>                                 | <u>6,596</u>                                 | <u>144</u>    | 2%              |
| <b>Total Sales</b>            | <b>135,783</b>                              | 140,263                                     | <b>564,227</b>                               | 555,712                                      | 8,515         | 2%              |

## OPERATING REVENUES

Operating revenues decreased by \$0.6 million, to \$58.2 million for the Fourth Quarter 2014 from \$58.8 million for the Fourth Quarter 2013 as a result of lower electricity sales revenues and lower fuel factor revenues.

Operating revenues increased 2%, or \$5.5 million, to \$231.7 million for the twelve months ended December 31, 2014 from \$226.2 million for the twelve months ended December 31, 2013. This increase was the result of higher electricity sales revenues and higher fuel factor revenues.

Total operating revenues were as follows:

| <b>Revenues</b>                   |   |   |  |  |               |                 |
|-----------------------------------|---|---|--|--|---------------|-----------------|
| (\$ thousands)                    |   |   |  |  |               |                 |
|                                   | <b>Three Months Ended December 31, 2014</b> | <b>Three Months Ended December 31, 2013</b> | <b>Twelve Months Ended December 31, 2014</b> | <b>Twelve Months Ended December 31, 2013</b> | <b>Change</b> | <b>% Change</b> |
| Residential                       | <b>8,206</b>                                | 8,905                                       | <b>34,910</b>                                | 34,592                                       | <b>318</b>    | 1%              |
| Commercial                        | <b>9,497</b>                                | 9,074                                       | <b>37,981</b>                                | 36,067                                       | <b>1,914</b>  | 5%              |
| Other (street lighting, etc.)     | <b>132</b>                                  | <u>130</u>                                  | <b>517</b>                                   | <u>472</u>                                   | <b>45</b>     | 10%             |
| <b>Electricity Sales Revenues</b> | <b>17,835</b>                               | 18,109                                      | <b>73,408</b>                                | 71,131                                       | <b>2,277</b>  | 3%              |
| <b>Fuel Factor Revenues</b>       | <b>40,357</b>                               | <u>40,692</u>                               | <b>158,297</b>                               | <u>155,089</u>                               | <b>3,208</b>  | 2%              |
| <b>Total Operating Revenues</b>   | <b>58,192</b>                               | 58,801                                      | <b>231,705</b>                               | 226,220                                      | <b>5,485</b>  | 2%              |

Electricity sales revenue decreased \$0.3 million, or 2%, in the Fourth Quarter 2014 to \$17.8 million when compared to electricity sales revenues of \$18.1 million for the Fourth Quarter 2013. This decrease is attributable to a 3% decline in kWh sales partially offset by the 1.5% base rate increase effective June 1, 2014.

Electricity sales revenue increased \$2.3 million, for the twelve months ended December 31, 2014 to \$73.4 million when compared to electricity sales revenues of \$71.1 million for the twelve months ended December 31, 2013. This increase is attributable to a 2% increase in kWh sales and the 1.5% and 1.8% base rate increases effective June 1, 2014 and June 1, 2013 respectively.

Fuel factor revenues for the Fourth Quarter 2014 totaled \$40.4 million, a 1% or \$0.3 million decrease from the \$40.7 million in fuel factor revenues for the Fourth Quarter 2013. Fuel factor revenues decreased due to a decline in the cost of fuel which reduced the fuel cost charge rate to consumers and a decline in kWh's consumed. The average Fuel Cost Charge rate per kWh charged to consumers for the Fourth Quarter 2014 was \$0.28, a 3% decrease when compared to \$0.29 per kWh for the Fourth Quarter 2013. Further reductions to the fuel cost charge rate per kWh are expected to occur in 2015 due to a decrease in customs duties levied on diesel fuel imports by the Cayman Islands

Government (“Government”). The Government has announced that this decrease will total to \$0.30 per IG. CUC passes through 100% of fuel costs to consumers on a two-month lag basis without mark-up.

Fuel factor revenues for the twelve months ended December 31, 2014 totalled \$158.3 million, a \$3.2 million increase from the \$155.1 million in fuel factor revenues for the twelve months ended December 31, 2013. Fuel factor revenues increased due to higher generation in 2014 (see “Power Generation” section for further details). The average Fuel Cost Charge rate per kWh charged to consumers for the twelve months ended December 31, 2014 was \$0.27, comparable to the Fuel Cost Charge rate per kWh for the twelve months ended December 31, 2013.

## OPERATING EXPENSES

Total operating expenses for the Fourth Quarter 2014 decreased \$0.2 million to \$51.9 million from \$52.1 million for the Fourth Quarter 2013. The main contributing factors to the decrease in operating expenses were lower maintenance and general and administration expenses, partially offset by higher consumer service expenses and temporary generation costs.

Total operating expenses for the twelve months ended December 31, 2014 increased \$5.3 million to \$206.4 million from \$201.1 million for the twelve months ended December 31, 2013. The main contributing factors to the increase in operating expenses were higher power generation and consumer service expenses, partially offset by lower depreciation and maintenance expenses.

Operating expenses were as follows:

| <b>Operating Expenses</b>         |   |   |  |  |               |                     |
|-----------------------------------|---|---|--|--|---------------|---------------------|
| (\$ thousands)                    |   |   |  |  |               |                     |
|                                   | <b>Three<br/>Months<br/>Ended<br/>December<br/>31, 2014</b> | <b>Three<br/>Months<br/>Ended<br/>December<br/>31, 2013</b> | <b>Twelve<br/>Months<br/>Ended<br/>December<br/>31, 2014</b> | <b>Twelve<br/>Months<br/>Ended<br/>December<br/>31, 2013</b> | <b>Change</b> | <b>%<br/>Change</b> |
| Power Generation Expenses         | <b>41,340</b>   | 41,427  | <b>161,832</b>   | 158,090  | <b>3,742</b>  | 2%                  |
| General and Administration        | <b>2,167</b>  | 2,349   | <b>8,796</b>   | 8,851  | <b>(55)</b>   | -1%                 |
| Consumer Service                  | <b>659</b>  | 431   | <b>3,357</b>   | 1,672  | <b>1,685</b>  | 101%                |
| Transmission and Distribution     | <b>634</b>  | 571   | <b>2,619</b>   | 2,200  | <b>419</b>    | 19%                 |
| Depreciation                      | <b>5,957</b>  | 5,960   | <b>24,030</b>  | 24,351   | <b>(321)</b>  | -1%                 |
| Maintenance                       | <b>1,074</b>  | 1,309   | <b>5,406</b>   | 5,610  | <b>(204)</b>  | -4%                 |
| Amortization of Intangible Assets | <b>80</b>   | 77  | <b>337</b>   | 306  | <b>31</b>     | 10%                 |
| <b>Total Operating Expenses</b>   | <b>51,911</b>   | 52,124  | <b>206,377</b>   | 201,080  | <b>5,297</b>  | 3%                  |

## POWER GENERATION

Power generation costs for the Fourth Quarter 2014 decreased \$0.1 million, to \$41.3 million when compared to \$41.4 million for the Fourth Quarter 2013. Power generation costs for the twelve months ended December 31, 2014 increased \$3.7 million to \$161.8 million when compared to \$158.1 million for the twelve months ended December 31, 2013. The increase is due to a 2% increase in net generation.

Power generation expenses were as follows:

| <b>Power Generation</b>   |   |   |  |  |               |                     |
|---|---|---|--|--|---------------|---------------------|
| <i>(\$ thousands) Fuel and Lubricating Oil costs stated net of deferred charges</i> |   |   |  |  |               |                     |
|   | <b>Three<br/>Months<br/>Ended<br/>December<br/>31, 2014</b> | <b>Three<br/>Months<br/>Ended<br/>December<br/>31, 2013</b> | <b>Twelve<br/>Months<br/>Ended<br/>December<br/>31, 2014</b> | <b>Twelve<br/>Months<br/>Ended<br/>December<br/>31, 2013</b> | <b>Change</b> | <b>%<br/>Change</b> |
| Fuel Costs  | <b>39,769</b>   | 40,101  | <b>155,955</b>   | 152,648  | <b>3,307</b>  | 2%                  |
| Lubricating Oil Costs   | <b>588</b>  | 591   | <b>2,342</b>   | 2,441  | <b>(99)</b>   | -4%                 |
| Temporary Generation Costs  | <b>212</b>  | -   | <b>412</b>   | -  | <b>412</b>    | n/a                 |
| Other Generation Expenses   | <b>771</b>  | <u>735</u>  | <b>3,123</b>   | <u>3,001</u>   | <b>122</b>    | 4%                  |
| <b>Total Power Generation<br/>Expenses</b>  | <b>41,340</b>   | 41,427  | <b>161,832</b>   | 158,090  | <b>3,742</b>  | 2%                  |

The Company's average price per imperial gallon ("IG") of fuel for the Fourth Quarter 2014 decreased to \$4.17 from \$4.70 for the Fourth Quarter 2013. The Company's average price per IG of fuel for the twelve months ended December 31, 2014 decreased to \$4.56 from \$4.74 for the twelve months ended December 31, 2013.

The Company's average price per IG of lubricating oil for the Fourth Quarter 2014 increased to \$13.10 from \$12.57 for the Fourth Quarter 2013. The Company's average price per IG of lubricating oil for the twelve months ended December 31, 2014 decreased to \$12.59 from \$12.65 for the twelve months ended December 31, 2013.

Diesel fuel and lubricating oil costs are recovered from consumers within the fuel factor revenues line item. The Fuel Tracker Account is comprised of total diesel fuel and lubricating oil costs to be recovered from consumers.

The objective of the Company's Fuel Price Volatility Management Program as approved by the ERA 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 2014 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.

CUC secured the supply of 7.5 MW of temporary mobile generation following the retirement of 17.5 MW of generation in early 2014. Temporary generation expenses for the Fourth Quarter 2014 totalled \$0.2 million. There were no temporary generation expenses for the Fourth Quarter 2013. Temporary generation expenses for the twelve months ended December 31, 2014 totalled \$0.4 million. There were no temporary generation expenses for the twelve months ended December 31, 2013.

Other generation expenses for the Fourth Quarter 2014 totaled \$0.8 million, a \$0.1 million increase when compared to Fourth Quarter 2013. Other generation expenses for the twelve months ended December 31, 2014 totalled \$3.1 million an increase of \$0.1 million when compared to \$3.0 million for the twelve months ended December 31, 2013.

## GENERAL AND ADMINISTRATION ("G&A")

G&A expenses for the Fourth Quarter 2014 totaled \$2.2 million a \$0.1 million or 4% decrease when compared to G&A expenses of \$2.3 million for the Fourth Quarter 2013. This decrease was due primarily to increased General Expenses Capitalised ("GEC").

G&A expenses for the twelve months ended December 31, 2014 totaled \$8.8 million, a decrease of \$0.1 million, or 1%, from \$8.9 million for the twelve months ended December 31, 2013. This decrease was due primarily to increased GEC, partially offset by the Company's Performance Share Unit ("PSU") plan.

The Company capitalizes certain overhead costs not directly attributable to specific capital assets but which do relate to the overall capital expenditure program. GEC totaled \$0.9 million for the Fourth Quarter 2014, \$0.2 million higher than \$0.7 million for the Fourth Quarter 2013. GEC totalled \$3.6 million for the twelve months ended December 31, 2014, \$0.2 million higher than \$3.4 million for the twelve months ended December 31, 2013.

### CONSUMER SERVICES (“CS”)

CS expenses for the Fourth Quarter 2014 totaled \$0.7 million an increase of \$0.3 million or 75% when compared to CS expenses for the Fourth Quarter 2013. CS expenses for the twelve months ended December 31, 2014 totaled \$3.4 million an increase of \$1.7 million or 100% when compared to \$1.7 million for the twelve months ended December 31, 2013.

The increase seen in Fourth Quarter 2014 and for the twelve months ended December 31, 2014 is attributable to an adjustment to the Allowance for Doubtful Accounts (“AFDA”) and expenses associated with additional human resources hired in this area to meet the needs of customers.

In accordance with its 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. During 2014, the Company commenced a full review of its outstanding Accounts Receivables balance and the reasonableness of its methodology of applying a flat percentage to total receivables in calculating AFDA. This review is complete and has indicated an increase in days outstanding for receivable balances. Consequently, management has determined the estimation process related to the AFDA would be refined to include a risk element for aging of accounts receivable. The implementation of the new AFDA methodology is complete.

The effect of this change of estimate was to increase the provision by \$0.1 million for the Fourth Quarter 2014. The effect of this change in estimate for the twelve months ended December 31, 2014 was to increase the provision by \$1.2 million.

### TRANSMISSION AND DISTRIBUTION (“T&D”)

T&D expenses for the Fourth Quarter 2014 totaled \$0.6 million comparable to the Fourth Quarter 2013.

T&D expenses for the twelve months ended December 31, 2014 totaled \$2.6 million an increase of \$0.4 million, or 19%, when compared to T&D expenses of \$2.2 million for the twelve months ended December 31, 2013. This increase was due primarily to the disposal of obsolete T&D inventory items totalling \$0.4 million and additional tree trimming maintenance costs incurred during the twelve months ended December 31, 2014.

### DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT (“DEPRECIATION”)

Depreciation expenses for the Fourth Quarter 2014 totalled \$6.0 million, comparable to the Fourth Quarter 2013.

Depreciation expenses for the twelve months ended December 31, 2014 totalled \$24.0 million, a decrease of \$0.4 million, or 1%, from \$24.4 million for the twelve months ended December 31, 2013. This decrease in depreciation is related to the book retirement of a 7.59 MW generating unit during 2013 and a change in the estimates of useful lives for certain assets.

In accordance with its PP&E policy, the Company reviews the estimated useful lives of its fixed assets on an ongoing basis. A review concluded during 2014 indicated that the actual lives of certain T&D and Generation assets were longer than the estimated useful lives used for depreciation purposes in the Company’s financial statements. As a result, effective 1 January 2014, the Company changed its estimates of the useful lives of these assets to better reflect

the estimated periods during which these assets will remain in service. The affected assets previously averaged useful lives of twenty years which were increased to an average of twenty-five to thirty-five years.

The effect of this change in estimate was to reduce depreciation for the Fourth Quarter 2014 by \$0.4 million and for the twelve months ended December 31, 2014 by \$1.6 million.

### **MAINTENANCE**

Maintenance expenses for the Fourth Quarter 2014 totaled \$1.1 million, a decrease of 15% or \$0.2 million when compared to maintenance expenses of \$1.3 million for the Fourth Quarter 2013.

Maintenance expenses for the twelve months ended December 31, 2014 totalled \$5.4 million, a decrease of \$0.2 million from \$5.6 million for the twelve months ended December 31, 2013. Maintenance expenses for the twelve months ended December 31, 2014 were expected to be lower than those seen in 2013 due to the quantum of scheduled upgrade projects in 2014. These upgrades relate to the Company's generating units and are of a capital nature. Certain upgrades to generating units are considered capital in nature as the resulting upgrades extend the life or increase the output of the unit.

### **AMORTIZATION**

Amortization of intangible assets for the Fourth Quarter 2014 totaled \$0.08 million, comparable to amortization expenses for the Fourth Quarter 2013. Amortization of intangible assets for the twelve months ended December 31, 2014 totalled \$0.3 million, comparable to the twelve months ended December 31, 2013.

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 ceased 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 Fourth Quarter 2014 totalled \$0.9 million, comparable to the Fourth Quarter 2013. Net Other Expenses for the twelve months ended December 31, 2014 totalled \$4.5 million, a decrease of \$0.2 million from \$4.7 million for the twelve months ended December 31, 2013. This decrease is the result of higher Other Income for the twelve months ended December 31, 2014.

Finance charges for the Fourth Quarter 2014 totaled \$2.2 million, comparable to finance charges for the Fourth Quarter 2013. Allowance for Funds Used during Construction ("AFUDC") for the Fourth Quarter 2014 totaled \$0.8 a decrease of \$0.1 million when compared to \$0.9 million for the Fourth Quarter 2013.

Finance charges for the twelve months ended December 31, 2014 totaled \$9.1 million, an increase of \$0.1 million from \$9.0 million for the twelve months ended December 31, 2013. This increase was driven by lower AFUDC partially offset by a reduction in average debt interest costs in the twelve months ended December 31, 2014.

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 2014 was 8.0%, as agreed with the ERA in accordance with the T&D Licence, and is reviewed annually. The cost of capital rate for 2013 was 7.5%.

The AFUDC amount for the twelve months ended December 31, 2014 totalled \$2.8 million, a \$0.4 million decrease when compared to \$3.2 million for the twelve months ended December 31, 2013. This decrease was attributable to lower average work in progress for the majority of 2014 when compared to 2013.

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 Fourth Quarter 2014 totaled \$0.5 million comparable to foreign exchange gains for the Fourth Quarter 2013.

Foreign exchange gains totalled \$1.9 million for the twelve months ended December 31, 2014 comparable to foreign exchange gains for the twelve months ended December 31, 2013.

Other income is comprised of pole rental fees, income from pipeline operations, sales of meter sockets, the sale of recyclable metals, income from the Company's subsidiary DataLink and other miscellaneous income. Other income for the Fourth Quarter 2014 totaled \$0.8 million comparable to the Fourth Quarter 2013.

Other income totalled \$2.7 million for the twelve months ended December 31, 2014, an increase of \$0.3 million, from \$2.4 million for the twelve months ended December 31, 2013.

Revenues from DataLink are recorded in Other Income in the amount of \$0.4 million for the Fourth Quarter 2014, an increase of \$0.1 million, from \$0.3 million for Fourth Quarter 2013. For the twelve months ended December 31, 2014 revenues from DataLink totalled \$0.9 million, an increase of \$0.3 million, from \$0.6 million for the twelve months ended December 31, 2013.

## THE ECONOMY

In October 2014 the Cayman Islands Economics and Statistics Office ("ESO") issued the 2014 Semi-Annual Economic Report. The report indicated that the Cayman Islands Gross Domestic Product ("GDP") was estimated to have expanded at an annualised rate of 2.2% in the first half of 2014. Economic expansion in the second quarter of 2014 was the strongest seen by the Cayman Islands since 2011. The ESO is forecasting Annual GDP growth in 2014 of 1.9% and 2.0% for 2015. CUC's annual sales growth and resource requirements, including numbers of employees, have historically been heavily influenced by the changes in the level of economic activity in the country as illustrated by the GDP.

The Consumer Price Index ("CPI") inflation averaged 1.5% for the first six months of 2014, this change was driven by higher prices for several items led by restaurants and hotels, household equipment, education and transport. The ESO is forecasting 2014 annual inflation of 1.8%.

The value of building permits rose from \$111.19 million for the six months ended June 30, 2013 to \$322.86 million for the six months ended June 30, 2014, due in large part to the Kimpton Hotel development which is currently under construction.

The Cayman Islands have two main industries; financial services and tourism. In relation to the finance industry the country has a well-established offshore center, one of the largest in the world. The Cayman Islands is one of the world's largest banking centers in terms of assets and one of the top jurisdictions for captive insurance companies.

The financial sector continued in 2014 to exhibit a mixed performance. Overall, there were fewer stock exchange listings and bank and trust licences while all other sub-sector indicators marked some improvement driven by an increase in new company registrations. Subdued activity in the 'class B' category for bank and trust licences during the period prolonged anew its downward trend, which reflects the consolidation among subsidiaries and branches of international banks.

The table below itemises trends in some of the key financial areas:

**Indicators for the Financial Services Industry**

(for the twelve months ending December 31)

|                             | <b>2014</b>   | <b>2013</b> | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|-----------------------------|---------------|-------------|-------------|-------------|-------------|
| Bank licences               | <b>198</b>    | 213         | 222         | 234         | 246         |
| Mutual funds*               | <b>11,010</b> | 11,379      | 10,841      | 9,258       | 9,438       |
| Mutual fund administrators  | <b>115</b>    | 121         | 124         | 129         | 134         |
| Registered Companies        | <b>99,459</b> | 95,530      | 93,612      | 92,964      | 91,206      |
| Captive insurance companies | <b>793</b>    | 788         | 768         | 739         | 738         |

\*The Cayman Islands Mutual Funds (Amendment) Law, 2011, dated December 22, 2011, amended the Mutual Funds Law (2009 Revision) to require all Master Funds, as defined therein, to become registered by the Cayman Islands Monetary Authority ("CIMA"). Registration for these funds was required for the first time in 2012. Previously registration of any such funds was voluntary in nature. As at December 31, 2014 there were 2,685 registered Master Mutual Funds (2013:2,635) and nil as at December 31, 2011 and prior periods.

The country's continued growth in tourism is further demonstrated by the planned Kimpton Hotel. The resort will consist of a pair of 10-story buildings, one housing a 265 room hotel and the other containing 61 condominiums. Six additional resort bungalows will be built along the beach. The resort will also house 5 restaurants. The hotel is planned to be completed in 2016.

The Cayman Islands tourism demographic is largely comprised of visitors from the United States of America ("US"). For 2014 75% of air arrivals to the country were citizens of the US. As such the US economy largely impacts that of the Cayman Islands. 2014 air arrivals were up 11% when compared to 2013 and cruise arrivals increased by 17% when compared to 2013. Air arrivals have a direct impact on the Company's sales growth as these visitors are stay-over visitors who occupy the hotels. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

The following table presents statistics for tourist arrivals in the Cayman Islands for the twelve months ending December 31:

**Tourist Arrivals to the Cayman Islands**

(for the twelve months ending December 31)

|        | <b>2014</b>      | <b>2013</b>      | <b>2012</b>      | <b>2011</b>      | <b>2010</b>      |
|--------|------------------|------------------|------------------|------------------|------------------|
| By Air | <b>382,816</b>   | 345,387          | 321,650          | 309,091          | 288,272          |
| By Sea | <b>1,609,555</b> | <u>1,375,872</u> | <u>1,507,370</u> | <u>1,401,495</u> | <u>1,597,838</u> |
| Total  | <b>1,992,371</b> | 1,721,259        | 1,829,020        | 1,710,586        | 1,886,110        |

All data is sourced from the Cayman Islands Government, Cayman Islands Economics & Statistics Office, Cayman Islands Monetary Authority, Cayman Financial Review and Cayman Islands Department of Tourism websites; [www.gov.ky](http://www.gov.ky) [www.ESO.ky](http://www.ESO.ky) [www.cimoney.com.ky](http://www.cimoney.com.ky) [www.caymanfinancialreview.com](http://www.caymanfinancialreview.com) [www.caymanislands.ky](http://www.caymanislands.ky) [www.sb-architects.com](http://www.sb-architects.com).

## LIQUIDITY AND CAPITAL RESOURCES

The following table outlines the summary of cash flow:

| <b>Cash Flows</b>           |   |   |  |  |               |                 |
|-----------------------------|---|---|--|--|---------------|-----------------|
| (\$ thousands)              |   |   |  |  |               |                 |
|                             | <b>Three<br/>Months<br/>Ended<br/>December<br/>31, 2014</b> | <b>Three<br/>Months<br/>Ended<br/>December<br/>31, 2013</b> | <b>Twelve<br/>Months<br/>Ended<br/>December<br/>31, 2014</b> | <b>Twelve<br/>Months<br/>Ended<br/>December<br/>31, 2013</b> | <b>Change</b> | <b>% Change</b> |
| Beginning Cash              | 3,467   | 3,445   | 1,215  | 694  | 521           | 75%             |
| Cash provided by/(used in): |   |   |  |  |               |                 |
| Operating Activities        | 9,864   | 11,403  | 46,780   | 49,940   | (3,160)       | -6%             |
| Investing Activities        | (18,743)  | (7,871)   | (39,774)   | (26,484)   | (13,290)      | -50%            |
| Financing Activities        | 27,227  | (5,762)   | 13,594   | (22,935)   | 36,529        | 159%            |
| <b>Ending Cash</b>          | <b>21,815</b>   | 1,215   | <b>21,815</b>  | 1,215  | <b>20,600</b> | 1,695%          |

### Operating Activities:

Cash flow provided by operations, after working capital adjustments, for the Fourth Quarter 2014, was \$9.9 million, a decrease of \$1.5 million when compared to \$11.4 million for the Fourth Quarter 2013. This decrease was primarily attributable to changes in non-cash working capital balances and lower earnings.

Cash flow provided by operations, after working capital adjustments, for the twelve months ended December 31, 2014, was \$46.8 million, a decrease of \$3.1 million from \$49.9 million for the twelve months ended December 31, 2013. This decrease was primarily due to changes in non-cash working capital balances and changes in regulatory deferrals.

### Investing Activities:

Cash used in investing activities totaled \$18.7 million for the Fourth Quarter 2014, an increase of \$10.8 million from \$7.9 million for the Fourth Quarter 2013. This increase is due to higher capital expenditures in the Fourth Quarter 2014. In the Fourth Quarter 2014 the Company made the first payment for the construction of a new 39.7MW diesel power plant which is planned for completion in 2016.

Cash used in investing activities for the twelve months ended December 31, 2014 totaled \$39.8 million, an increase of \$13.3 million from \$26.5 for the twelve months ended December 31, 2013. This increase is due to higher capital expenditures during the twelve months ended December 31, 2014.

### Financing Activities:

Cash received from financing activities totaled \$27.2 million for the Fourth Quarter 2014 compared to \$5.8 million of cash utilised in financing activities in the Fourth Quarter 2013. This increase is due primarily to debt receipts of \$50.0 million in long term funding during the Fourth Quarter 2014, compared to no proceeds from debt during the Fourth Quarter 2013.

Cash received from financing activities totalled \$13.6 million for the twelve months ended December 31, 2014 compared to \$22.9 million of cash utilised in financing activities for the twelve months ended December 31, 2013. During the twelve months ended December 31, 2014, the Company received \$65.0 million in debt proceeds, repaid \$1.3 million of the overdraft facility and repaid debt of \$32.0 million, compared to debt proceeds of \$50.0 million, repayment of the overdraft facility totalling to \$4.9 million, and debt payments of \$50.5 million during the twelve months ended December 31, 2013.

## FINANCIAL POSITION

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2013 to December 31, 2014:

| <b>Significant changes in Balance Sheets</b>         |  |  |
|--|--|--|
| <i>(from December 31, 2013 to December 31, 2014)</i> |  |  |
| <b>Balance Sheet Account</b>                         | <b>Increase<br/>(Decrease)</b><br><i>(\$ millions)</i> | <b>Explanation</b>   |
| Cash and Cash Equivalents                            | 20.6   | Increase due to cash provided by operating activities of \$46.8 million and cash from financing activities of \$13.6 million, partially offset by cash used in investing activities of \$39.8 million.                         |
| Accounts Receivable                                  | (4.4)  | Primarily due to increased allowance for doubtful accounts and lower fuel billings in the Fourth Quarter 2014.   |
| Regulatory Assets                                    | (0.8)  | Decrease attributable to lower fuel costs.   |
| Inventories  | (1.7)  | Decrease in value of fuel inventory due to lower fuel costs.   |
| Property, Plant and Equipment                        | 15.4   | Net increase is comprised of capital expenditures of (1) \$39.5 million (2) depreciation expense of \$24.0 million (3) \$0.2 million in accrued capital expenditure (4) \$0.3 million in contributions in aid of construction. |
| Bank Overdraft                                       | (1.3)  | Full repayment of bank overdraft.  |
| Accounts Payable and Accrued Expenses                | (5.3)  | Decreased payable related to lower fuel costs.   |
| Current Portion of Long-Term Debt                    | (3.0)  | Decrease due to full repayment of Company's 7.64% Senior Unsecured Note Loan Note in June 2014.  |
| Long-Term Debt                                       | 36.0   | Increase due to \$50.0 million in debt proceeds received in the Fourth Quarter 2014, partially offset by principal payments made on the Company's Senior Unsecured Notes.  |
| Share Premium  | 2.0  | The Company issued 200,359 shares through its share purchase plans.  |

## 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 containing 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 2008 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 December 31, 2014, the Company was in compliance with all debt covenants.

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

| Capital structure    |                      |     |                      |     |
|----------------------|----------------------|-----|----------------------|-----|
|                      | December 31,<br>2014 | %   | December 31,<br>2013 | %   |
|                      | (\$ millions)        |     | (\$ millions)        |     |
| Total Debt           | 252.0                | 58  | 219.0                | 55  |
| Shareholder's Equity | 179.8                | 42  | 178.3                | 45  |
| Total                | 431.8                | 100 | 397.3                | 100 |

During the twelve months ended December 31, 2014, the Company's capital structure increased \$34.5 million to \$431.8 million from \$397.3 million at December 31, 2013. This increase is due to higher total debt and a \$1.5 million increase in shareholder's equity.

During the Fourth Quarter 2014, the Company closed on a \$50 million private placement consisting of \$30 million 3.65% Senior Unsecured Notes due November 25, 2029, \$5 million 3.85% Senior Unsecured Notes due November 25, 2034, and \$15 million 4.53% Senior Unsecured Notes due November 25, 2046.

During the twelve months ended December 31, 2014, the Company received \$65.0 million in debt financing and repaid debt of \$32.0 million, including \$15 million of short term debt. For the twelve months ended December 31, 2014 shareholders' equity increased by \$1.5 million to \$179.8 million when compared to \$178.3 million for the twelve months ended December 31, 2013. This increase in shareholder's equity was primarily attributable to the issuance of 200,359 shares and an increase in retained earnings, partially offset by an increase in accumulated other comprehensive loss

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

S&P A-/Stable  
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.

The A- rating reflects S&P's positive view of the Company's current position as the sole provider of generation services, and the Company's licensed position as the sole provider of T&D services. The rating also reflects S&P's positive view of regulatory support and stable cash flows offset by the economic uncertainty and the limited history of the regulator.

The DBRS "A" rating reflects a supportive regulatory regime, solid credit metrics and a stable island economy and the demand for electricity. Impacting the rating were such factors as hurricane event risk and small size of customer base.

## CREDIT FACILITIES

The Company has \$47.0 million of unsecured credit facilities with the Royal Bank of Canada (“RBC”) comprised of:

### Short-Term Financing

(\$ millions)

| Credit Facilities   | December 31, 2014 |
|---|-------------------|
| Corporate Credit Card Line                                    | 0.5               |
| Letter of Credit  | 0.5               |
| Operating, Revolving Line of Credit                           | 7.5               |
| Catastrophe Standby Loan                                      | 7.5               |
| Demand Loan Facility- Interim Funding of Capital Expenditures | 31.0              |
| <b>Total</b>  | <b>47.0</b>       |

Of the total above, \$46.0 million was available at December 31, 2014.

## CAPITAL EXPENDITURES

Capital expenditures for the Fourth Quarter 2014 were \$18.4 million, a \$10.9 million, or 145% increase from \$7.5 million in capital expenditures for the Fourth Quarter 2013. In the Fourth Quarter 2014 the Company made the first payment for the construction of a new 39.7MW diesel power plant which is planned for completion in 2016.

Capital expenditures for the twelve months ended December 31, 2014 were \$39.5 million, a \$10.2 million, or 26% increase from \$29.3 million in capital expenditures for the same period of the previous year. Included within the various 2014 projects is AFUDC totaling to \$2.8 million.

## 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 December 31, 2014.

## BUSINESS RISKS

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

### Economic Conditions

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

### Regulation

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

### Insurance – Terms and Coverage

The Company renewed its insurance policy as at July 1, 2014 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 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 the 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 recognized 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 \$100.0 million limit on property and business interruption (excluding windstorm, earth movement and flood).

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

### Credit Risk

There is risk that CUC may not be able to collect all of its accounts receivable and other assets. This does not represent a significant concentration of risk. The requirement for security deposits for certain customers, which are advance cash collections from customers to guarantee payment of electricity billings, reduces the exposure to credit risk. CUC manages credit risk primarily by executing its credit collection policy, including the requirement for security deposits and the application of a Finance Charge on overdue accounts beyond 60 days, through the resources of its customer service department. The Finance Charge was approved by the ERA in late 2014 with an effective date of January 1, 2015.

### Trade and other accounts receivable

(\$ thousands)

|                                       | As at December 31, 2014 | As at December 31, 2013 |
|---------------------------------------|-------------------------|-------------------------|
| Current                               | 9,224                   | 11,914                  |
| Past due 31-60 days                   | 1,628                   | 2,018                   |
| Past due 61-90 days                   | 516                     | 594                     |
| Past due over 90 days                 | <u>4,397</u>            | <u>4,314</u>            |
| <b>Total Accounts Receivable</b>      | <b>15,765</b>           | <b>18,840</b>           |
| Less: Allowance for doubtful accounts | <b>(1,481)</b>          | (195)                   |
| Less: Consumer Deposits               | <b><u>(5,364)</u></b>   | <b><u>(4,998)</u></b>   |
| <b>Net Exposure</b>                   | <b>8,920</b>            | <b>13,647</b>           |

As at December 31, 2014, the net exposure on the balance sheet is \$8.9 million.

### Critical Accounting Estimates

The preparation of the Company’s financial statements in accordance with United States 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.

**Quarterly Results**

The table “Quarterly Results” summarises unaudited quarterly information for each of the eight quarters ended March 31, 2013 through December 31, 2014. 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

**Quarterly results**

(\$ thousands, except basic and diluted earnings per ordinary share)

|                    | <b>Operating Revenue</b> | <b>Net Earnings</b> | <b>Income applicable to Class A Ordinary Shares</b> | <b>Earnings per Class A Ordinary Share</b> | <b>Diluted Earnings per Class A Ordinary Share</b> |
|--------------------|--------------------------|---------------------|---|--|--|
| December 31, 2014  | 58,192                   | 5,397               | 4,806   | 0.16                                       | 0.16   |
| September 30, 2014 | 63,437                   | 6,221               | 6,108   | 0.21                                       | 0.21   |
| June 30, 2014      | 56,571                   | 5,749               | 5,636   | 0.20                                       | 0.20   |
| March 31, 2014     | 53,505                   | 3,448               | 3,335   | 0.11                                       | 0.11   |
| December 31, 2013  | 58,801                   | 5,760               | 5,169   | 0.18                                       | 0.18   |
| September 30, 2013 | 59,547                   | 6,048               | 5,935   | 0.21                                       | 0.21   |
| June 30, 2013      | 55,346                   | 5,716               | 5,603   | 0.19                                       | 0.19   |
| March 31, 2013     | 52,525                   | 2,898               | 2,785   | 0.10                                       | 0.10   |

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

**Outlook**

On October 3, 2014 the ERA announced that CUC was the successful bidder for new generation capacity. CUC will develop and operate a new 39.7 megawatts (“MW”) diesel power plant including two 18.5 MW diesel generating units and a 2.7 MW waste heat recovery steam turbine. The project cost is estimated at \$85 million and the plant will be commissioned no later than June 2016.

In December 2014 the ERA approved CUC’s 2015-2019 Capital Investment Plan in the amount of \$234 million. Generation expansion costs related to the recent bid award are included in the approved CIP in the amount of CUC’s competitive bid.

## Consolidated Balance Sheets

(expressed in thousands of United States Dollars)

| <b>Unaudited</b>                                  | <b>As at December 31,<br/>2014</b> | <b>As at December 31,<br/>2013</b> |
|---|------------------------------------|------------------------------------|
| <b>Assets</b>                                     |                                    |                                    |
| <i>Current Assets</i>                             |                                    |                                    |
| Cash and Cash Equivalents                         | 21,815                             | 1,215                              |
| Accounts Receivable                               | 14,284                             | 18,645                             |
| Regulatory Assets                                 | 23,543                             | 24,373                             |
| Inventories                                       | 3,517                              | 5,185                              |
| Prepayments                                       | 2,793                              | 2,703                              |
|   | <b>65,952</b>                      | 52,121                             |
| Property, Plant and Equipment                     | 394,680                            | 379,329                            |
| Other Assets                                      | 1,594                              | 1,509                              |
| Intangible Assets                                 | 3,174                              | 2,791                              |
| <b>Total Assets</b>                               | <b>465,400</b>                     | 435,750                            |
| <b>Liabilities and Shareholders' Equity</b>       |                                    |                                    |
| <i>Current Liabilities</i>                        |                                    |                                    |
| Bank Overdraft                                    | -                                  | 1,258                              |
| Accounts Payable and Accrued Expenses             | 26,318                             | 31,633                             |
| Related Party Payables                            | 16                                 | 10                                 |
| Regulatory Liabilities                            | 145                                | 242                                |
| Current Portion of Long-Term Debt                 | 14,000                             | 17,000                             |
| Consumers' Deposits and Advances for Construction | 5,461                              | 4,998                              |
|   | <b>45,940</b>                      | 55,141                             |
| Defined Benefit Pension Liability                 | 1,415                              | 283                                |
| Long-Term Debt                                    | 238,000                            | 202,000                            |
| Other Long term Liabilities                       | 210                                | 34                                 |
| <b>Total Liabilities</b>                          | <b>285,565</b>                     | 257,458                            |
| <b>Shareholders' Equity</b>                       |                                    |                                    |
| Share Capital                                     | 1,992                              | 1,980                              |
| Share Premium                                     | 83,044                             | 81,023                             |
| Additional Paid in Capital                        | 463                                | 479                                |
| Retained Earnings                                 | 95,722                             | 95,064                             |
| Accumulated Other Comprehensive Loss              | (1,386)                            | (254)                              |
| <b>Total Shareholders' Equity</b>                 | <b>179,835</b>                     | 178,292                            |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>465,400</b>                     | 435,750                            |

## Consolidated Statements of Earnings

(expressed in thousands of United States Dollars, except basic and diluted earnings per ordinary share and the Weighted Average of Class A Ordinary Shares issued and fully paid)

| <b>Unaudited</b>  | <b>Three<br/>Months<br/>Ended<br/>December 31,<br/>2014</b> | <b>Three<br/>Months<br/>Ended<br/>December 31,<br/>2013</b> | <b>Twelve<br/>Months<br/>Ended<br/>December 31,<br/>2014</b> | <b>Twelve<br/>Months<br/>Ended<br/>December 31,<br/>2013</b> |
|---|---|---|--|--|
| <b>Operating Revenues</b>   |   |   |  |  |
| Electricity Sales   | 17,835  | 18,109  | 73,408   | 71,131   |
| Fuel Factor   | 40,357  | 40,692  | 158,297  | 155,089  |
| <i>Total Operating Revenues</i>   | <b>58,192</b>   | 58,801  | <b>231,705</b>   | 226,220  |
| <b>Operating Expenses</b>   |   |   |  |  |
| Power Generation  | 41,340  | 41,427  | 161,832  | 158,090  |
| General and Administration  | 2,167   | 2,349   | 8,796  | 8,851  |
| Consumer Services   | 659   | 431   | 3,357  | 1,672  |
| Transmission and Distribution   | 634   | 571   | 2,619  | 2,200  |
| Depreciation  | 5,957   | 5,960   | 24,030   | 24,351   |
| Maintenance   | 1,074   | 1,309   | 5,406  | 5,610  |
| Amortization of Intangible Assets   | 80  | 77  | 337  | 306  |
| <i>Total Operating Expenses</i>   | <b>51,911</b>   | 52,124  | <b>206,377</b>   | 201,080  |
| <b>Operating Income</b>   | <b>6,281</b>  | 6,677   | <b>25,328</b>  | 25,140   |
| <b>Other (Expenses)/Income:</b>   |   |   |  |  |
| Finance Charges   | (2,181)   | (2,172)   | (9,115)  | (9,018)  |
| Foreign Exchange Gain   | 464   | 484   | 1,917  | 1,927  |
| Other Income  | 833   | 771   | 2,685  | 2,373  |
| <i>Total Net Other (Expenses)/Income</i>  | <b>(884)</b>  | (917)   | <b>(4,513)</b>   | (4,718)  |
| <b>Earnings for the Period</b>  | <b>5,397</b>  | 5,760   | <b>20,815</b>  | 20,422   |
| <b>Preference Dividends Paid- Class B</b>   | <b>(591)</b>  | (591)   | <b>(930)</b>   | (930)  |
| <b>Earnings on Class A Ordinary Shares</b>  | <b>4,806</b>  | 5,169   | <b>19,885</b>  | 19,492   |
| Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands) | <b>29,197</b>   | 28,927  | <b>29,131</b>  | 28,892   |
| <b>Earnings per Class A Ordinary Share</b>  | <b>0.16</b>   | 0.18  | <b>0.68</b>  | 0.68   |
| Diluted Earnings per Class A Ordinary Share   | <b>0.16</b>   | 0.18  | <b>0.68</b>  | 0.68   |
| Dividends Declared per Class A Ordinary Share   | <b>0.165</b>  | 0.165   | <b>0.660</b>   | 0.660  |

## Consolidated Statements of Comprehensive Income

(expressed in thousands of United States Dollars)

| Unaudited                           | Three<br>Months<br>Ended<br>December 31,<br>2014 | Three<br>Months<br>Ended<br>December 31,<br>2013 | Twelve<br>Months<br>Ended<br>December 31,<br>2014 | Twelve<br>Months<br>Ended<br>December 31,<br>2013 |
|-------------------------------------|--|--|---|---|
| <b>Earnings for the Period</b>      | <b>5,397</b>                                     | 5,760  | <b>20,815</b>                                     | 20,422  |
| Other Comprehensive Income/(Loss):  |  |  |   |   |
| Amounts arising during the period   |  |  |   |   |
| Defined Benefit Pension plans:      |  |  |   |   |
| Net actuarial (loss)/gain           | <b>(1,214)</b>                                   | 1,084  | <b>(1,214)</b>                                    | 1,085   |
| Reclassification to net income      |  |  |   |   |
| Defined Benefit Pension plans:      |  |  |   |   |
| Amortization of prior service costs | <b>22</b>  | 62   | <b>82</b>   | 248   |
| Amortization of net actuarial loss  | -  | 33   | -   | 133   |
| Total Other Comprehensive Income    | <b>(1,192)</b>                                   | 1,179  | <b>(1,132)</b>                                    | 1,466   |
| <b>Comprehensive Income</b>         | <b>4,205</b>                                     | 6,939  | <b>19,683</b>                                     | 21,888  |

## Consolidated Statements of Shareholders' Equity

(expressed in thousands of United States Dollars except Common Shares)

| Unaudited   | Class A<br>Ordinary<br>Shares (in<br>thousands) | Class A<br>Ordinary<br>Shares<br>Value (\$) | Preference<br>Shares (\$) | Share<br>Premium<br>(\$) | Additional<br>Paid-in<br>Capital (\$) | Accumulated<br>Other<br>Comprehensive<br>Loss (\$) | Retained<br>Earnings (\$) | Total Equity (\$) |
|---|---|---|---------------------------|--------------------------|---------------------------------------|--|---------------------------|-------------------|
| <b>As at January<br/>1, 2014</b>                          | <b>29,060</b>                                   | <b>1,730</b>                                | <b>250</b>                | <b>81,023</b>            | <b>479</b>                            | <b>(254)</b>                                       | <b>95,064</b>             | <b>178,292</b>    |
| Net Earnings  | -   | -   | -                         | -                        | -                                     | -  | 20,815                    | 20,815            |
| Common<br>share<br>issuance and<br>stock options<br>plans | 200   | 12  | -                         | 2,021                    | (16)                                  | -  | -                         | 2,017             |
| Defined<br>benefit plans                                  | -   | -   | -                         | -                        | -                                     | (1,132)  | -                         | (1,132)           |
| Dividends on<br>common<br>shares                          | -   | -   | -                         | -                        | -                                     | -  | (19,227)                  | (19,227)          |
| Dividends on<br>preference<br>shares                      | -   | -   | -                         | -                        | -                                     | -  | (930)                     | (930)             |
| <b>As at<br/>December<br/>31, 2014</b>                    | <b>29,260</b>                                   | <b>1,742</b>                                | <b>250</b>                | <b>83,044</b>            | <b>463</b>                            | <b>(1,386)</b>                                     | <b>95,722</b>             | <b>179,835</b>    |
| <b>As at January<br/>1, 2013</b>                          | <b>28,806</b>                                   | <b>1,715</b>                                | <b>250</b>                | <b>78,524</b>            | <b>450</b>                            | <b>(1,720)</b>                                     | <b>94,647</b>             | <b>173,866</b>    |
| Net Earnings  | -   | -   | -                         | -                        | -                                     | -  | 20,422                    | 20,422            |
| Common<br>share<br>issuance and<br>stock options<br>plans | 254   | 15  | -                         | 2,499                    | 29                                    | -  | -                         | 2,543             |
| Defined<br>benefit plans                                  | -   | -   | -                         | -                        | -                                     | 1,466  | -                         | 1,466             |
| Dividends on<br>common<br>shares                          | -   | -   | -                         | -                        | -                                     | -  | (19,075)                  | (19,075)          |
| Dividends on<br>preference<br>shares                      | -   | -   | -                         | -                        | -                                     | -  | (930)                     | (930)             |
| <b>As at<br/>December<br/>31, 2013</b>                    | <b>29,060</b>                                   | <b>1,730</b>                                | <b>250</b>                | <b>81,023</b>            | <b>479</b>                            | <b>(254)</b>                                       | <b>95,064</b>             | <b>178,292</b>    |

## Consolidated Statements of Cash Flows

(expressed in thousands of United States Dollars)

| Unaudited   | Three<br>Months<br>Ended<br>December<br>31, 2014 | Three<br>Months<br>Ended<br>December<br>31, 2013 | Twelve<br>Months<br>Ended<br>December<br>31, 2014 | Twelve<br>Months<br>Ended<br>December<br>31, 2013 |
|---|--|--|---|---|
| <b>Operating Activities</b>   |  |  |   |   |
| Earnings for the period   | 5,397  | 5,760  | 20,815  | 20,422  |
| Items not affecting cash:   |  |  |   |   |
| Depreciation  | 5,957  | 5,960  | 24,030  | 24,351  |
| Amortization of Intangible Assets                                     | 80   | 77   | 337   | 306   |
| Non-cash Pension Expenses   | 22   | -  | -   | -   |
| Amortization of Deferred Financing Costs                              | 34   | 59   | 156   | 194   |
| Stock-based Compensation  | 1  | 7  | (17)  | 28  |
|   | <b>11,491</b>                                    | 11,863   | <b>45,321</b>                                     | 45,301  |
| Net change in non-cash working capital balances related to operations | <b>(6,043)</b>                                   | (3,980)  | 726   | 3,320   |
| Net Change in Regulatory Deferrals                                    | 4,416  | 3,203  | 733   | 1,319   |
| <i>Cash flow related to operating activities</i>                      | <b>9,864</b>                                     | 11,086   | <b>46,780</b>                                     | 49,940  |
| <b>Investing Activities</b>   |  |  |   |   |
| Purchase of Property, Plant and Equipment                             | <b>(18,367)</b>                                  | (7,461)  | <b>(39,472)</b>                                   | (29,323)  |
| Costs related to Intangible Assets                                    | <b>(376)</b>                                     | (107)  | <b>(643)</b>                                      | (200)   |
| Insurance funds received  | -  | -  | -   | 2,505   |
| Contributions in Aid of Construction                                  | -  | (320)  | 320   | 498   |
| Proceeds on sale of Property, Plant and Equipment                     | -  | 17   | 21  | 36  |
| <i>Cash flow related to Investing Activities</i>                      | <b>(18,743)</b>                                  | (7,871)  | <b>(39,774)</b>                                   | (26,484)  |
| <b>Financing Activities</b>   |  |  |   |   |
| Proceeds from Debt Financing  | 50,000   | -  | 65,000  | 50,000  |
| Repayment of Debt   | <b>(18,000)</b>                                  | (3,000)  | <b>(32,000)</b>                                   | (50,500)  |
| (Decrease)/Increase in Bank Overdraft                                 | <b>(455)</b>                                     | 1,258  | <b>(1,258)</b>                                    | (4,942)   |
| Dividends Paid  | <b>(4,937)</b>                                   | (4,574)  | <b>(20,184)</b>                                   | (20,005)  |
| Net Proceeds from Share Issues  | 619  | 871  | 2,036   | 2,512   |
| <i>Cash flow related to financing activities</i>                      | <b>27,227</b>                                    | (5,445)  | <b>13,594</b>                                     | (22,935)  |
| <b>Increase in net cash and cash equivalents</b>                      | <b>18,348</b>                                    | (2,230)  | <b>20,600</b>                                     | 521   |
| Cash and cash equivalents - Beginning of period                       | 3,467  | 3,445  | 1,215   | 694   |
| <b>Cash and cash equivalents - End of period</b>                      | <b>21,815</b>                                    | 1,215  | <b>21,815</b>                                     | 1,215   |
| <b>Supplemental disclosure of cash flow information:</b>              |  |  |   |   |
| Interest paid during the period                                       | 5,565  | 6,041  | 11,634  | 11,990  |