Caribbean Utilities Company, Ltd.

2012 Annual Report

General Data

About the Company

Caribbean Utilities Company, Ltd., known locally as "CUC", commenced operations as the only electric utility in Grand Cayman on May 10, 1966. The Company currently has an installed generating capacity of 149.540 megawatts (MW), and the record peak load of 102.086 MW was experienced on June 3, 2010. CUC is committed to providing a safe and reliable supply of electricity to over 27,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's development for over 45 years.

Contents

Readers should review the Note further in this Annual Report, in the Management's Discussion and Analysis section, concerning the use of forward-looking statements, which applies to the entirety of this Annual Report to shareholders.

Highlights

Financial Results in Brief

(Expressed in thousands of United States dollars, unless stated otherwise)

	Twelve months ended Dec. 31, 2012 $	Twelve months ended Dec. 31, 2011 $	Change %
Electricity sales	**69,111**	69,630	(1%)
Fuel factor	**154,438**	148,469	5%
Operating revenue	**223,549**	218,099	3%
Total operating expenses	**200,932**	193,082	5%
Finance charges	**9,125**	8,659	5%
Earnings for the year	**17,691**	20,390	(13%)
Total assets	**434,972**	423,339	3%
Total shareholders' equity	**173,866**	173,255	0%
Earnings per Class A Ordinary Share ($ per share)	**0.58**	0.68	(15%)
Dividends per Class A Ordinary Share (paid and declared) ($ per share)	**0.66**	0.66	0%
Book value per Class A Ordinary Share ($ per share)	**6.03**	6.04	0%
Class A Ordinary Shares ($ per share)			
Market price: High	**10.60**	9.80	8%
Low	**9.17**	8.86	3%
Year-end	**9.40**	9.46	(1%)

Performance

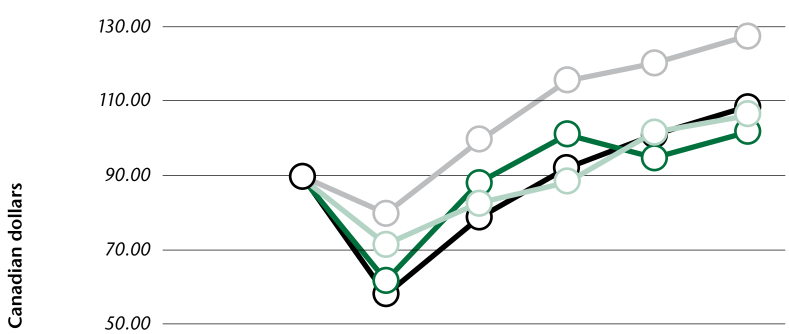
Net earnings for the twelve months ended December 31, 2012 were $17.7 million. A 1% decline in kilowatt-hour sales and higher transmission and distribution and depreciation costs resulted in an overall decrease year-over-year from $20.4 million for the twelve months ended December 31, 2011. Dividends paid and declared on Class A Ordinary Shares were $0.66 per share. The Class A Ordinary Shares (CUP.U) traded on the Toronto Stock Exchange at a high of $10.60 per share in 2012.

Rate of Exchange

The closing rate of exchange as of December 31, 2012 as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was Cdn$0.9949 per US$1.00. The official exchange rate for conversion of Cayman Islands dollars into United States dollars, as determined by the Cayman Islands Monetary Authority, has been fixed since April 1974 at US$1.20 per CI$1.00. Thus, the rate of exchange as of December 31, 2012 for the conversion of Cayman Islands dollars into Canadian dollars was Cdn$1.194 per CI$1.00 (December 31, 2011: Cdn$1.220).

Share Performance

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



	2008	2008TP	2009	2010	2011	2012
CUC Index (Cdn$)	100.00	71.59	81.03	89.34	103.80	107.86
CUC Index (US$)	100.00	65.93	89.04	104.71	95.59	102.46
S&P/TSX Composite Index	100.00	82.18	97.79	115.78	123.27	128.18
S&P/TSX Composite Index - Utilities (Sector)	100.00	59.20	77.65	90.48	102.80	109.20

Information reflected in this Highlights section should be read in conjunction with the disclosure contained in the Management's Discussion and Analysis and its associated cautions beginning on page eight. All dollar amounts in this 2012 Annual Report are stated in United States dollars unless otherwise indicated.

Fellow Shareholders

It is our pleasure to report on the financial performance and operational progress of Caribbean Utilities Company, Ltd. ("CUC" or the "Company") for the twelve month period ended December 31, 2012 ("Fiscal 2012").

Financial Performance

Net earnings for Fiscal 2012 were $17.7 million, representing a 13% or $2.7 million decrease from net earnings of $20.4 million for the twelve months ended December 31, 2011. This decrease is attributable to a 1% decline in kilowatt-hour ("kWh") sales, higher transmission and distribution and depreciation costs, increased finance charges and higher general and administration costs. The higher general and administration costs are primarily related to the Company's defined benefit pension plan.

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, 2012 were $16.8 million, or $0.58 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, 2011.

Kilowatt-hour sales for Fiscal 2012 were 547.8 million kWh, a decrease of 6.2 million or 1% when compared to 554.0 million for the twelve months ended December 2011.

The 1% fall in electricity sales marked the third consecutive year without appreciable growth in electricity sales for the Company. The reduction in sales was a reflection of the weak state of the Cayman Islands' economy and the high price of diesel fuel which continued to drive consumers' energy conservation. Overall wetter and cooler conditions also contributed to lower electricity consumption.

The average temperature for 2012 was 81.9 degrees Fahrenheit compared to 82.3 degrees for 2011.

On average, 2012 had higher monthly rainfall than 2011 with multiple months displaying above average trends. The average monthly rainfall for the twelve months ended December 31, 2012 was 5.06 inches when compared to an average rainfall of 3.60 inches for the same period in 2011. Heavy rainfall is usually consistent with a reduction in air-conditioning load.

Electricity sales revenue decreased $0.5 million in Fiscal 2012 to $69.1 million when compared to electricity sales revenues of $69.6 million for the year ended December 31, 2011. This was a result of the decrease in kWh sales, partially offset by the 0.7% base rate adjustment effected in June 2012 in accordance with the Rate Cap and Adjustment Mechanism ("RCAM") in CUC's Transmission and Distribution ("T&D") Licence.

The number of customer connections continued to grow in Fiscal Year 2012 and at December 31, 2012 the total number of connected customers stood at 27,035, a 1% increase over the previous year. Residential customers increased by 2% and commercial customers increased by 1%. However, the average customer consumption and overall electricity consumption fell as a result of increased energy efficiency in new commercial buildings as well as residential consumer conservation.

While fuel prices were relatively stable during the year under review, they remained relatively high and as a result, customers continued to curtail their energy usage. The Company's average price per imperial gallon ("IG") of fuel for the year ended December 31, 2012 increased to $4.79 from $4.63 for the year ended December 31, 2011. CUC passes through 100% of fuel and lubricating oils costs to consumers on a two-month lag basis without mark up.

Customer Service and Operations

Our Company remains focused on providing a safe and reliable service at least cost to all consumers.

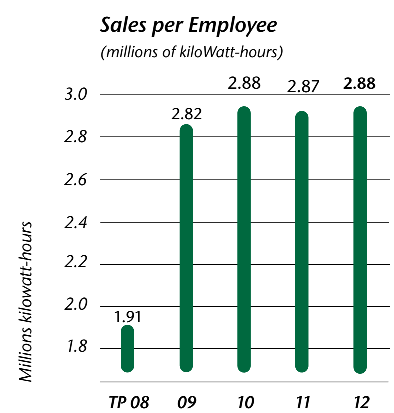
During the year under review the Company started the roll out of its Advanced Metering Infrastructure ("AMI") project. Once completed, this project will bring efficiencies in meter reading and other services such as disconnects and reconnects directly from CUC's offices. AMI will also provide real-time electricity consumption information and a 'pay as you go' payment option to assist consumers with monitoring and controlling their electricity consumption.

2012 also saw the completion of the 69 kilovolt Eastern Transmission Loop. This Loop provides dual transmission sources to the Company's distribution substations in the eastern districts and will serve to minimise the number and duration of outages to our customers in this area.

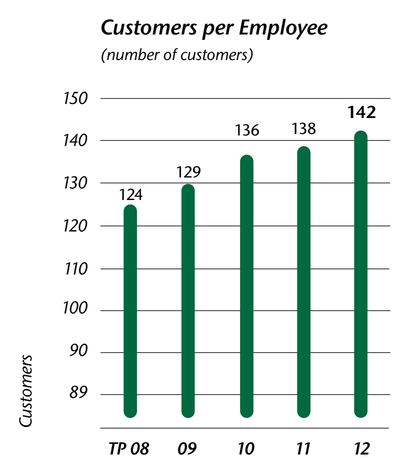
Reliability of service for CUC's system as measured by the Average Service Availability Index was 99.96%. Excluding the major outage last July which was caused by a fault in the Hydesville Substation in West Bay, our customers experienced on average 3.67 outages for 2012, which lasted on average four minutes each. The Company continues to meet the challenges of providing high reliability on a small island system and to seek ways of improving this highly valued aspect of our service.

In March 2012, the Electricity Regulatory Authority ("ERA") sanctioned the creation of CUC's wholly owned subsidiary, DataLink, Ltd. ("DataLink"). During the same month, the Information and Communications Technology Authority ("ICTA") granted DataLink a licence to provide fibre optic infrastructure on Grand Cayman (the "Island").

CUC has been exploring large



TP - Transitional Period



TP - Transitional Period

scale alternative energy options in an effort to reduce and stabilize costs to its consumers and to lower emissions from fossil fuels. In August 2011, the Company initiated a competitive bidding process to fill 13 megawatts ("MW") of non-firm renewable energy capacity. Extensive negotiations with the two leading bidders have been conducted and agreement has been reached with one bidder on the significant terms and milestones leading to the execution of a binding power purchase agreement which is subject to regulatory approval. CUC anticipates that it will agree terms on a similar basis with the second bidder in the first half of 2013. Following the confirmation of these agreements, CUC looks forward to purchasing renewable energy at competitive prices from large scale renewable energy facilities by late 2014.

Although renewable energy is attractive, in cases such as in wind and solar, it is intermittent and requires a firm energy source such as the diesel generating unit to back it up. CUC employs the latest technology in fuel efficient diesel engines to generate most of its electricity and in 2012 recorded its highest ever fuel efficiency results due to high availability of the diesel generators and improved dispatch. The benefits of these results are passed directly to our customers in fuel cost savings.

On February 1, 2011, the ERA approved revisions to the Consumer-Owned Renewable Energy (CORE) programme, replacing the avoided cost of fuel reimbursement formula with a feed-in-tariff structure ("FITS"). As an incentive to adopt renewable energy, payments made under the FIT structure to CORE customers will be at a rate that is higher than the full retail rate for electricity generated by CUC through non-renewable diesel generation. The FIT pilot programme initially ran for one year starting February 2011 and ended January 2012 with an introductory rate of CI 37 cents per kWh for customers generating approved renewable energy. The programme was reviewed in 2012 and, with the approval of the ERA, rates per kWh were revised to CI 38.5 cents for residential customers and CI 37.5 cents for commercial customers. The programme is cost-neutral to CUC.

In early 2012, the ERA solicited Request for Proposals ("RFP") for additional generation capacity from six Qualified Bidders, including CUC. This competitive solicitation process was in response to the certificate of need issued by the Company in November 2011 and driven primarily by the upcoming retirements of some of the Company's generating units. The projected date for 18 MW of additional generation capacity is July 2014, with a second increment of 18 MW of capacity required up to three years later in 2017 with timing dependent on the economic growth and development of the Cayman Islands' economy and the related growth in demand for electricity.

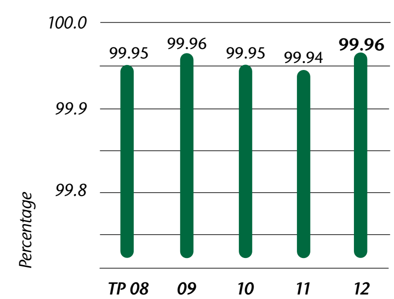
The Company submitted its bid in July 2012, but was advised in February 2013 that another local Company, DECCO Ltd., had won the bid. CUC is currently reviewing the ERA's analysis of the bids.

Human Resources and Training

CUC's commitment to improving safety and efficiency was apparent in 2012. Nearly 5,400 man hours were devoted to training staff to perform their jobs in a safe and efficient manner. The majority of this training took place in-house and was conducted by trainers from other Fortis companies and by equipment specialists. In 2012 a Human Capital

System Availability

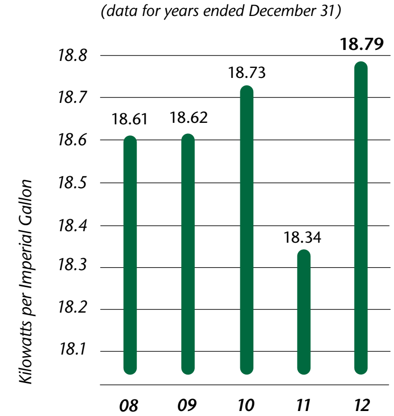
(data for years ended December 31)



***TP** - Transitional Period*

Net Fuel Efficiency

(data for years ended December 31)



Assessment was conducted in order to plan the Company's future training needs. This assessment directed the training and development plans for all employees to ensure that CUC's staff members are able to excel in their respective fields and ensure that the Company continues to grow as an industry leader.

Throughout 2012, the Company remained committed to retaining its well-qualified employee complement. It provided Caymanians with the training necessary to excel in their respective fields and to ensure that they are afforded the opportunity to assume positions of responsibility within the organisation.

The Company recognises that an ongoing human resource development programme is essential to ensuring the continued growth and success of the Company.

In January 2012, the Company added a new component to its Reward and Recognition Programme. The CUC Unsung Hero Award recognises employees who go beyond the call of duty and make invaluable contributions which are integral to the Company's operations. Mr. Richard Solomon from the Information Technology Department was named CUC's Unsung Hero for 2012.

CUC's scholarship programme, which was established in 1989, has, over the years, awarded full and partial scholarships to over 30 current and past employees in the fields of mechanical and electrical engineering, information technology, systems operations, environmental management and financial services. Three of the Company's four executive officers and two of its 14 managers were educated through CUC scholarships.

2012 saw the return of Mr. Waide Watler, who completed his Bachelor's degree in Information Technology and Mr. Corey Miller, with a Bachelor's in Mechanical Engineering. Both attended universities in the United States and are now resettled

In 2012, the Company embarked on a number of major transmission and distribution projects including the removal of a large section of distribution lines and hardware around the Island's airport and the subsequent re-routing of service through newly constructed poles and lines.

in their respective roles within the organisation.

CUC participates in the Investors in People ("IIP") programme which is a continuous business improvement framework and international quality standard. CUC was awarded the IIP certification in 2006 and was successfully assessed and recertified in 2009 and 2012.

Safety and the Environment

The safety of employees and the public remained a top priority in 2012. The Company continued to improve its work methods and practices through training, the revision of the Health and Safety Manual, and through the partnership of the Executive Team, Managers and Supervisors to chart the Company's safety direction.

Given the inherent hazards associated with our line of work, employee, contractor, and public safety is critical. Public promotions highlighting traffic safety, employee and contractor orientations, and safety equipment inspections and maintenance contributed to a reduction in safety incidents and an increase in the awareness of hazards.

The Company's Environmental Management System ("EMS") is certified under the International Organization for Standardization ("ISO") 14001:2004 standard. Significant Environmental Aspects, ("SEA's"), which are the focus of the programme, include air emissions, waste management, petroleum management, resource use, process water management, hazardous materials and chemicals, and noise emissions. In March 2012, the Company's EMS successfully passed its Surveillance Audit by an independent third party. The Company remains committed to working with government bodies and authorities to ensure the protection of our environment.

In 2012, the Company started the process of aligning its Health and Safety Management System with the Occupational Health and Safety Standard ("OHSAS") 18001:2007 health and safety standard. It is intended to combine both the health and safety and the environmental

In keeping with CUC's commitment to education and the preservation of our environment, the Company continues to sponsor primary school field trips to the Central Mangrove Wetlands and other areas. Two-day classroom sessions with an expert on mangroves form the basis of this programme. Now in its 13th year, CUC's Environmental Education Programme features field trips, experiments and classroom discussions designed to promote greater awareness and to educate our youth on the importance of the Island's Central Mangrove Wetlands and mangroves in general as sanctuaries for marine life as well as the positive effect they have on the environment.

management systems to form an integrated system in order to improve the efficiency in the administration of these two critical management systems.

Community

CUC remains committed to the Grand Cayman community and continues to participate in a number of community involvement activities through donations and employee volunteerism. These activities are primarily focused on youth development through sports and education, environmental awareness and protection.

The Company provides ongoing support to the Lighthouse School and the Sunrise Adult Training Centre, two facilities that cater to special needs children and adults.

At the end of December 2012, our employees had volunteered over 1,400 hours to participate in the Company's Community Involvement projects. These included Big Brothers Big Sisters, Meals on Wheels, the Cadet Corps, CUC's Primary Football League (PFL), the Junior Achievement Programme, The Cayman Islands Scouts Association and Positive Intervention Now (PIN), an after-school programme.

The Company continues to sponsor an Environmental Education Programme, which exposes primary school children to the Island's marine environment.

Summary

The year under review has provided some challenges but also some opportunities for the Company. As we move forward, the Company will continue to focus on controlling discretionary expenditures, while maintaining a safe, efficient and reliable service to our customers. Improvements in electricity sales and earnings continue to depend on the return of growth in the local economy. The latest Cayman Islands Annual Economic report indicates that the Gross Domestic Product (GDP) grew by an annualised rate of 0.8% for the first nine months of 2012 and it is estimated to have been 1.4% for the full year. The report also states that the growth outlook for 2013 is 1.2%. CUC stands ready to participate in the growth and development of the Island when the economy improves.

The Company has made and will continue to make every effort to provide good value to our shareholders, to our customers and to our employees. As a company, our goal is to be best in class in the Caribbean in the areas of productivity and efficiency, quality and reliability, service and safety and environmental performance by leveraging new and enhanced technologies.

CUC receives guidance and support from its Board of Directors and we thank the directors for their ongoing contributions. We also thank our employees who have remained committed, loyal and dedicated to our mission which is, "To be a leader in the growth of our community by delivering safe and reliable energy service at competitive costs and with respect to the environment while remaining a model corporate citizen and providing a fair return to our shareholders."

David E. Ritch, OBE, JP
Chairman of the Board of Directors

J.F. Richard Hew
President & Chief Executive Officer

March 15, 2013

Management's Discussion and Analysis

Letitia Lawrence
Vice President Finance & Chief Financial Officer

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or the "Company") consolidated financial statements for the twelve months ended December 31, 2012 ("Fiscal 2012"). 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 2012 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 the recovery or refund would not be subject to regulatory approval.

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements concerning anticipated future events, results, circumstances, performance or expectations with respect to the Company and its operations, including its strategy and financial performance and condition. Forward looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plan", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedule", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward looking statements are based on underlying assumptions and management's beliefs, estimates and opinions, and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Some of the important risks and uncertainties that could affect forward looking statements are described in the MD&A in the section labelled "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.*

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

Corporate and Regulatory Overview

The principal activity of the Company is to generate, transmit and distribute electricity in its licence area of Grand Cayman (the "Island"), Cayman Islands pursuant to a 20-year exclusive Transmission & Distribution ("T&D") Licence and a 21.5 year non-exclusive Generation Licence ("the Licences") granted by the Cayman Islands Government (the "Government"), which expire in April 2028 and September 2029 respectively.

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 2012 was 6.9% (2011: 7.6%). CUC's RORB for 2012 was targetted in the 7.25% to 9.25% range (2011: 7.75% to 9.75%).

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel 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 2012, following review and approval by the Electricity Regulatory Authority ("ERA"), the Company increased its base rates by 0.7% as a result of the 2011 RORB and the slight increase in the applicable United States and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2011. All fuel and lubricating oil costs are passed through to customers

Financial and Operational Highlights

(in $ thousands except basic earnings per Class A Ordinary Share, dividends paid per Class A Ordinary Share and where otherwise indicated)

	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011	Change	Change %
Electricity sales	**69,111**	69,630	(519)	(1%)
Fuel factor revenues	**154,438**	148,469	5,969	4%
Operating revenues	**223,549**	218,099	5,450	2%
Fuel and lube costs	**154,438**	148,469	5,969	4%
Other operating expenses	**46,494**	44,613	1,881	4%
Total operating expenses	**200,932**	193,082	7,850	4%
Earnings for the period	**17,691**	20,390	(2,699)	(13%)
Basic earnings per Class A Ordinary Share	**0.58**	0.68	(0.10)	(15%)
Dividends paid per Class A Ordinary Share	**0.660**	0.660	-	0%
Peak load gross (MW)	**95.9**	99.0	(3.1)	(3%)
Net generation (millions kWh)	**587.1**	594.0	(6.9)	(1%)
Kilowatt-hour sales (millions kWh)	**547.8**	554.0	(6.2)	(1%)
Total customers	**27,035**	26,636	399	1%
Customers per employee (#)	**142**	138	4	3%
Sales per employee (millions kWh)	**2.88**	2.87	0.01	0%

without mark-up as a per kWh charge.

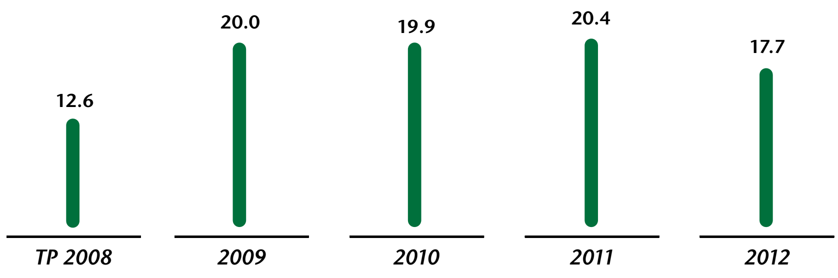
Rate base is the value of capital upon which the Company is permitted an opportunity to earn a return. The value of this capital is the average of the beginning and ending values for the applicable financial year of: fixed assets less accumulated depreciation, plus the allowance for working capital, plus regulatory assets less regulatory liabilities.

The ERA has the overall responsibility of regulating the electricity industry in the Cayman Islands in accordance with the ERA Law. The ERA oversees all licencees, establishes and enforces licence standards, enforces applicable environmental and performance standards, reviews the proposed RCAM, and sets the rate adjustment factors as appropriate.

The ERA also annually reviews and approves CUC's capital investment plan ("CIP"). The Company's CIP for 2012 to 2016 in the amount of $122.0 million relating to non-generation installation expenditures was approved by the ERA in March 2012. Additional capital expenditures in respect of additional generation capacity are subject to ERA approval

Earnings

($ millions)



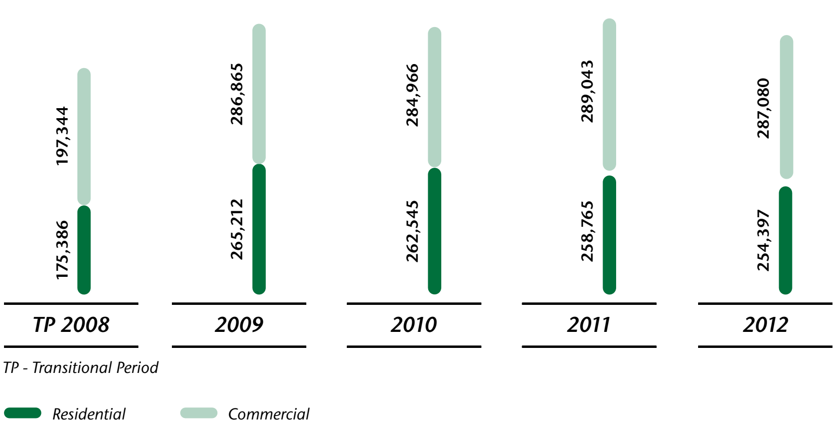
TP - Transitional Period

through a competitive bid process. The proposed 2013 to 2017 CIP totalling $124.6 million of non-generation installation expenditures was submitted to the ERA in October 2012 for approval.

A Certificate of Need was issued by the Company in November 2011, driven primarily by the upcoming retirements of some of the Company's generating units. In March 2012 the ERA solicited Request for Proposals ("RFP") for additional generation capacity from six Qualified Bidders (including CUC). CUC submitted its bid in July 2012. The projected

Residential and Commercial Sales

(Sales in thousands kWh)



TP - Transitional Period

commissioning date for the 18 megawatts ("MW") of additional generation capacity is July 2014, with a second increment of 18 MW of capacity by 2017 with timing dependent on economic growth and development of the Grand Cayman economy and the related growth in demand for electricity.

In February 2013, the Company was advised that another local Company, DECCO Ltd., had won the bid. CUC is currently reviewing the ERA's analysis of the bids.

A licence fee of 1%, payable to the Government, is 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 ½ of 1% is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month.

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 time of destruction. 'Z' Factor rate changes will be required for insurance deductibles and other extraordinary expenses. A 'Z' Factor is the amount, expressed in cents per kwh, approved by the ERA to recover the costs of items deemed to be outside of the constraints of the RCAM.

In late March 2012 CUC's wholly owned subsidiary, DataLink, Ltd. ("DataLink"), received its licence from the Information and Communication Technology Authority ("ICTA"), which permits DataLink to provide fibre optic infrastructure and other information and communication technology ("ICT") services to the ICT industry. The licence is 15 years in term and expires on March 27, 2027.

The ICTA is an independent statutory body which was created by the enactment of the Information and Communications Technology Authority Law on May 17, 2002 and is responsible for the regulation and licencing of Telecommunications, Broadcasting, and all forms of radio. The ICTA sets the standards under which ICT networks must be developed and operated.

Earnings

Net earnings for Fiscal 2012 were $17.7 million, representing a 13% or $2.7 million decrease from net earnings of $20.4 million for the twelve months ended December 31, 2011 ("Fiscal 2011"). This decrease is attributable to a 1% decline in kWh sales and higher transmission and distribution and depreciation costs, increased finance charges and higher general and administration costs. The higher general and administration costs are related to the Company's defined benefit pension plan (see the *"General and Administration"* section for further details). These items were partially offset by decreased consumer service and maintenance costs and increased other income.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Fiscal 2012 were $16.8 million, or $0.58 per Class A Ordinary Share as compared to $19.5 million, or $0.68 per Class A Ordinary Share for Fiscal 2011. 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 28,698,657 and 28,523,127 for the years ended December 31, 2012 and December 31, 2011, respectively.

Sales

Kilowatt-hour sales for Fiscal 2012 were 547.8 million kWh, a decrease of 6.2 million or 1% when compared to 554.0 million for the year ended December 31, 2011. The average temperature for 2012 was 81.9 degrees Fahrenheit ("°F") compared to 82.3°F for 2011.

On average, 2012 had higher monthly rainfall than 2011 with multiple months displaying above average trends. May 2012 saw a record breaking 17.7 inches of rainfall, the highest level recorded in one month in over nine years and the highest level on record for the month of May in 20 years. August 2012 experienced 10.6 inches of rain as compared to the 6.48 inches of rain in August 2011 and September 2012

Sales and Customer Highlights

	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011	Change %
Customers *(number)*			
Residential	**23,075**	22,731	2%
Commercial	**3,960**	3,905	1%
Total Customers	**27,035**	26,636	1%
Sales *(in thousands kWh)*			
Residential	**254,397**	258,765	(2%)
Commercial	**287,080**	289,043	(1%)
Other	**6,332**	6,174	3%
Total sales	**547,809**	553,982	(1%)
Revenues *(in thousands of $)*			
Residential	**33,240**	33,592	(1%)
Commercial	**35,420**	35,596	0%
Other (street light, etc.)	**451**	442	2%
Fuel factor	**154,438**	148,469	4%
Total operating revenues	**223,549**	218,099	2%

Operating Expenses

($ thousands)

	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011	Change	Change %
Power generation expenses	**157,677**	151,714	5,963	4%
General and administration	**9,635**	9,254	381	4%
Consumer service and promotion	**1,549**	1,616	(67)	(4%)
Transmission and distribution	**2,406**	1,998	408	20%
Depreciation	**22,690**	20,570	2,120	10%
Maintenance	**6,602**	7,622	(1,020)	(13%)
Amortization of intangible assets	**373**	308	65	21%
Total operating expenses	**200,932**	193,082	7,850	4%

experienced 6.59 inches of rain as compared to 5.60 inches of rain in September 2011. The 10.59 inches of rainfall experienced in August 2012 was the largest quantity of rain experienced in an August month on Grand Cayman in over 20 years. The average monthly rainfall for Fiscal 2012 was 5.06 inches as compared to an average rainfall of 3.60 inches for the same period last year. Heavy rainfall is usually consistent with a reduction in air-conditioning load.

Sales for the year ended December 31, 2012 were positively impacted by an additional leap year sales day in February. Excluding the impact of this additional day, the Company's kWh sales were 546.3 million kWh, for Fiscal 2012 when compared to 554.0 million kWh for Fiscal 2011.

Total customers as at December 31, 2012 were 27,035, an increase of 1% compared to 26,636 customers as at December 31, 2011. An average of 33 customers were connected per month for Fiscal 2012 as compared to an average of 40 customers per month for Fiscal 2011.

Operating Revenues

Operating revenues increased 2%, or $5.5 million, to $223.5 million for Fiscal 2012 from $218.1 million for Fiscal 2011. This increase was the result of higher fuel factor revenues in 2012 as a result of fuel price increases.

Electricity sales revenue decreased $0.5 million in Fiscal 2012 to $69.1 million when compared to electricity sales revenues of $69.6 million For Fiscal 2011. Electricity sales revenues for Fiscal 2012 were lower mainly due to cooler, wetter weather conditions.

Fuel factor revenues for Fiscal 2012 totalled $154.4 million, a 4% increase from the $148.5 million in fuel factor revenues for Fiscal 2011. Fuel factor revenues increased due to an increase in the cost of fuel (see *"Power Generation"* section for further details). The average Fuel Cost Charge rate per kWh charged to consumers for Fiscal 2012 was $0.27 comparable to Fiscal 2011. CUC passes through 100% of fuel costs to consumers on a two-month lag basis.

Operating Expenses

Total operating expenses for Fiscal 2012 increased 4% to $200.9 million from $193.1 million for Fiscal 2011. The main contributing factors to the

Power Generation Expenses

($ thousands)

	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011	Change	Change %
Fuel costs (net of deferred fuel charges)	**151,525**	145,550	5,975	4%
Lube costs (net of deferred lube charges)	**2,913**	2,919	(6)	0%
Other generation expenses	**3,239**	3,245	(6)	0%
Total power generation expenses	**157,677**	151,714	5,963	4%

increase in operating expenses were higher depreciation, transmission and distribution and power generation expenses which were comprised predominantly of fuel costs.

Power Generation

Power generation costs for Fiscal 2012 increased $6.0 million, or 4%, to $157.7 million when compared to $151.7 million for Fiscal 2011. The increase is due to higher fuel costs.

The Company's average price per imperial gallon ("IG") of fuel for the Fiscal 2012 increased to $4.79 from $4.63 for Fiscal 2011. The Company's average price per IG of lubricating oil for Fiscal 2012 decreased to $14.10 from $14.12 for Fiscal 2011.

The Fuel Tracker Account (see *Note 6* of the *Notes to Annual Consolidated Financial Statements*) is comprised of total diesel fuel and lubricating oil costs to be recovered from consumers.

In March 2011 the ERA approved the Fuel Price Volatility Management Programme. 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 May 2012 and November 2012 utilise call spreads to promote transparency in pricing. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

Other generation expenses for Fiscal 2012 totalled $3.2 million comparable to Fiscal 2011.

General and Administration ("G&A")

G&A expenses for Fiscal 2012 totalled $9.6 million, an increase of $0.3 million, or 4%, from $9.3 million for Fiscal 2011. This increase was the result of higher expenses related to the Company's defined benefit pension plan.

The Company established a defined benefit pension plan for the retired Chairman during 2003 and in May 2005, CUC's Board of Directors approved the establishment of a defined benefit pension plan for the retired President and Chief Executive Officer. The pension costs of the defined benefit pension plans are actuarially determined using the projected benefits method. A defined pension expense of $0.9 million has been recorded for Fiscal 2012 an increase of $0.5 million when compared to $0.4 million for Fiscal 2011.

The Company capitalises certain overhead costs not directly attributable to specific capital assets but which do relate to the overall capital expenditure programme.

Construction continues on the Island's famous Seven Mile Beach as The WaterColours project takes shape. The Island's first nine-storey condominium complex consists of 39 luxury residences available in three and four bedroom units. The WaterColours is set for completion in 2013.

Other Income and Expenses

($ thousands)

	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011	Change	Change %
Total interest costs	**(12,607)**	(12,332)	(275)	2%
AFUDC	**3,482**	3,673	(191)	(5%)
Total finance charges	**(9,125)**	(8,659)	(466)	5%
Foreign exchange gains	**2,165**	2,125	40	2%
Other income	**2,034**	1,907	127	7%
Total net other expenses	**(4,926)**	(4,627)	(299)	6%

General Expenses Capitalised ("GEC") totalled $3.1 million for Fiscal 2012, $0.2 million higher than $2.9 million for Fiscal 2011.

Consumer Services ("CS")

CS expenses for Fiscal 2012 totalled $1.5 million a decrease of $0.1 million when compared to $1.6 million for Fiscal 2011.

Transmission and Distribution ("T&D")

T&D expenses for Fiscal 2012 totalled $2.4 million an increase of $0.4 million, or 20%, when compared to T&D expenses of $2.0 million for Fiscal 2011. This increase was partially due to a decline in capitalised labour as the T&D Division focused primarily on maintenance projects during 2012.

Depreciation of Property, Plant and Equipment ("Depreciation")

Depreciation expenses for Fiscal 2012 totalled $22.7 million, an increase of $2.1 million, or 10%, from $20.6 million for Fiscal 2011.

In October 2010 the temporary cessation of depreciation on a 16 MW unit began and the temporary cessation of depreciation on a 7.59 MW unit began in March 2011. The 16 MW unit was taken out of service due to an overspeed failure and placed back in service in July 2011. The 7.59 MW unit was taken out of service due to a major mechanical failure and retired in the second quarter of 2012 in accordance with the Company's Generation Licence. The cost of the refurbishment for the 16 MW unit was covered by the Company's insurance policy subject to the deductible (see *"Insurance - Terms & Coverage"* in the *"Business Risks"* section for further details). Depreciation expense recommenced when the repaired 16 MW unit was placed back into service.

In accordance with the Licences when an asset is impaired or disposed of, before 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 the rate regulation standard under US GAAP and differs from non-regulatory treatment of a loss being recognised on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. Proceeds can be funds received for sale of the asset, sale of parts or insurance proceeds. The amount charged to accumulated depreciation net of insurance proceeds is to be depreciated as per the remaining life of the asset based on the original life when the unit was initially placed into service.

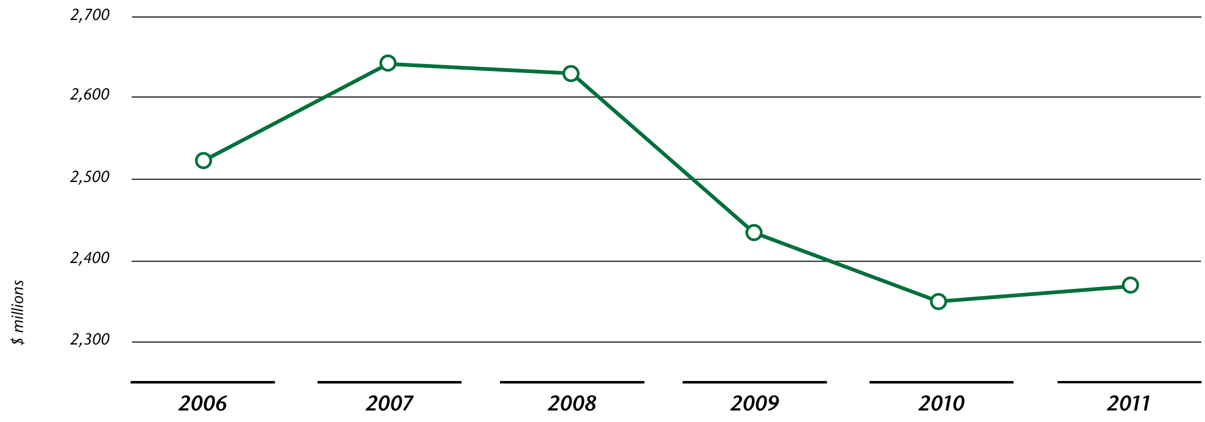
In the case of the 16 MW unit, in accordance with the Licences, the costs associated with the refurbishment of the asset were capitalised and the insurance proceeds have been applied to accumulated depreciation.

Maintenance

Maintenance expenses for Fiscal 2012 totalled $6.6 million, a decrease of $1.0 million from $7.6 million for Fiscal 2011.

Maintenance expenses for Fiscal 2012 were expected to be lower than those seen in 2011 due to the cyclical nature of the maintenance schedule resulting in various capital projects being scheduled in 2012. Certain upgrades to generating units are considered capital in nature as the upgrades extend the life or increase the output of the unit.

Cayman Islands Gross Domestic Product



At constant 2007 prices
Source: Cayman Islands Government, Economics and Statistics Office, Annual Economic Report 2011

Amortization

Amortization of intangible assets for Fiscal 2012 totalled $0.4 million, an increase of $0.1 million or 21% when compared to $0.3 million for Fiscal 2011.

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 negotiations for the Company's licences. The negotiations for the Company's electricity licence ceased in 2008 and the costs associated with the licences 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

Finance charges for Fiscal 2012 totalled $9.1 million, an increase of $0.4 million from $8.7 million for Fiscal 2011. This increase was attributable to lower Allowance for Funds Used during Construction ("AFUDC") in Fiscal 2012.

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 2012 is 8.25% as agreed with the ERA, in accordance with the T&D Licence, and is reviewed annually. The cost of capital rate for 2011 was 8.75%.

The AFUDC amount for Fiscal 2012 totalled $3.5 million, a $0.2 million decrease when compared to $3.7 million for Fiscal 2011. This decrease

Key Indicators for the Financial Services Industry

	As at **December 2012**	As at December 2011	As at December 2010	As at December 2009	As at December 2008
Bank licences	226	234	246	266	278
Mutual funds *	10,841	9,258	9,348	9,523	9,870
Mutual fund administrators	124	129	134	141	155
Captive insurance companies	741	739	738	780	777

** 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, 2012 there were 1,891 registered Master Mutual Funds compared to nil as at December 31, 2011.*

was attributable to lower capital expenditure.

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 totalled $2.2 million for Fiscal 2012 a $0.1 million or 5% increase when compared to $2.1 million for Fiscal 2011.

Other Income:

Other income is comprised of pole rental fees, income from pipeline operations, sales of meter sockets, the sale of recyclable metals and other miscellaneous income.

Other income totalled $2.0 million for the Fiscal 2012, an increase of $0.1 million, from $1.9 million for Fiscal 2011.

In March 2012 the ERA acknowledged the creation of DataLink, Ltd., CUC's wholly owned subsidiary. Subsequently the ICTA granted DataLink a licence to provide fibre optic infrastructure in Grand Cayman. Revenues from DataLink are recorded in *"Other Income"*.

CUC and DataLink have entered into three agreements:

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

All three agreements have been approved by the ERA. The ICTA licence allows DataLink to assume full responsibility for the existing Pole Attachment Agreements and Optical Fibre Lease Agreement currently held by CUC with third party information and communications technology service providers. The novation and reassignment of existing contracts was completed in 2012.

Tourist Arrivals to the Cayman Islands

(for the twelve months ending December 31)

	2012	2011	2010	2009	2008
By air	**321,650**	309,091	288,272	271,958	302,879
By sea	**1,507,370**	1,401,495	1,597,838	1,520,372	1,553,053
Total	**1,829,020**	1,710,586	1,886,110	1,792,330	1,855,932

The Economy

Financial services and tourism are the two main industries of the Cayman Islands. The recession that has impacted the global economy has also impacted the Cayman Islands and these sectors. In January 2013 the Government released the 2012 Third Quarter Economic Report where it was stated that the Cayman Islands economy was projected to improve in 2012, conditional on continued growth in major source markets for tourism and financial services.

In 2011, the Gross Domestic Product ("GDP") for the Cayman Islands increased by 1.1%, the first increase since 2007. The Third Quarter Economic Report indicated that the Cayman Islands GDP grew by an estimated annualised rate of 0.8% for the first nine months of 2012. In March 2013, the Government released the 2012 Consumer Price Index ("CPI") Report. The CPI for 2012 was reported at 1.2%. The CPI for the three months ended December 2012 increased by 2.1% when compared to December 2011. The overall CPI stood at 102.5 in December 2012 and at

Summary of Cash Flows

($ thousands)

	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011	Change	Change %
Beginning cash	424	2,363	(1,939)	(82%)
Cash provided by/(used in):				
Operating activities	33,833	37,111	(3,278)	(9%)
Investing activities	(30,061)	(35,388)	5,327	(15%)
Financing activities	(3,502)	(3,662)	160	(4%)
Ending cash	695	424	271	64%

100.4 in December 2011.

The 2011 Annual Economic Report also indicated that the Cayman Islands population increased to 55,517 when compared to 55,036 in 2010. Cayman has a high proportion of foreign nationals that provide labour in various sectors of the economy. Foreign workers as at September 2012 totalled 20,112 a 1% increase when compared to 19,927 at the close of 2011 and a 5% increase when compared to 19,106 at the close of 2010.

Construction, as gauged by the value of building permits, which when compared to the same period in 2011, decreased 12% to $104.8 million for the first six months of 2012. Building permits are a good indication of future development but not of future energy requirements from CUC. Customers may move from one building to another leaving the previous premises unoccupied.

The tourist demographic is largely comprised of visitors from the United States of America ("US"). For 2012 79% of air arrivals to the country were citizens of the US. As such the US economy largely impacts that of the Cayman Islands. 2012 air arrivals were up 4% when compared to 2011 and cruise arrivals increased by 8% when compared to 2011. 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 table *"Tourist Arrivals to the Cayman Islands"* presents statistics for tourist arrivals in the Cayman Islands for the twelve months ending December 31.

(All data is sourced from the Cayman Islands Government, Cayman Islands Economics and Statistics Office, Cayman Islands Monetory Authority and Cayman Islands Department of Tourism websites: www.gov.ky; www.eso.ky; www.cimoney.com.ky and www.caymanislands.ky).

Contractual Obligations

($ millions)

	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	219.5	50.5	31.0	25.0	113.0
Defined benefit pension	0.3	0.3	-	-	-
Total	219.8	50.8	31.0	25.0	113.0

Capital Structure

	December 31, 2012 *($ millions)*	**%**	December 31, 2011 *($ millions)*	%
Total debt	**219.5**	**56**	210.0	55
Shareholder's equity	**173.9**	**44**	173.3	45
Total	**393.4**	**100**	383.3	100

Liquidity and Capital Resources

The table *"Summary of Cash Flows"* outlines the summary of cash flows for Fiscal 2012 and Fiscal 2011.

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for Fiscal 2012, was $33.8 million, a decrease of $3.3 million from $37.1 million for Fiscal 2011. This was primarily due to changes in non-cash working capital balances and a reduction in earnings.

Investing Activities:

Cash used in investing activities for Fiscal 2012 totalled $30.1 million, a decrease of $5.3 million from $35.4 for Fiscal 2011. This is due to decreased capital related expenditures.

Financing Activities:

Cash used in financing activities totalled $3.5 million for Fiscal 2012, a decrease of $0.2 million from $3.7 million used in financing activities for Fiscal 2011. During Fiscal 2012, the Company received $25.0 million in debt financing, utilised $5.1 million of the overdraft facility, repaid debt of $15.5 million and paid dividends of $19.9 million.

Transactions with Related Parties

Miscellaneous payables to Fortis Turks & Caicos, also a subsidiary of Fortis Inc. totalling $0.001 million were outstanding at December 31, 2012 (nil as at December 31, 2011) for travel expenses and are included within the Accounts Payable and Accrued Expenses on the Balance Sheet. Miscellaneous receivables from Fortis Turks & Caicos were nil at December 31, 2012 ($0.01 million as at December 31, 2011). Prior year amounts related to engineering assistance and were included within Accounts Receivable on the Balance Sheet. Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totalling $0.05 million were outstanding at December 31, 2012 (nil as at December 31, 2011) for labour, insurance and travel expenses are included within the Accounts Payable and Accrued Expenses on the Balance Sheet. Miscellaneous receivables from Fortis Inc. were $0.01 million at December 31, 2012 (nil as at December 31, 2011) for travel expenses and are included within Accounts Receivable on the Balance Sheet.

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at December 31, 2012, are outlined in the table *"Contractual Obligations"*.

The Company executed a primary fuel supply contract with Rubis Cayman Islands Limited ("Rubis") in September 2012 upon the expiration of its previous fuel supply contracts. Under the agreement the Company is committed to purchase approximately 60% of its diesel fuel requirements for its North Sound Road Power Plant from Rubis. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2013 - 19.4, 2014 - 11.3. The Company also executed a secondary fuel supply contract with Esso Cayman Limited ("Esso") in September 2012 and is committed to purchase approximately 40% of the Company's diesel fuel requirements for its North Sound Road Power Plant from Esso. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2013 - 13.0, 2014 - 7.6. Both contracts expire on July 31, 2014 with the option to renew for two additional 18-month terms. Renewal cannot occur more than six months in advance of the current contract expiry date.

Significant Changes in Balance Sheets

(from December 31, 2011 to December 31, 2012)

Balance Sheet Account	Increase/ (Decrease) *($ millions)*	Explanation
Cash and cash equivalents	0.3	Increase due to cash provided by operating activities of $33.8 million offset by cash used in financing activities of $3.5 million offset by cash used in investing activities of $30.0 million.
Accounts receivable	4.1	Increase due to billing adjustments for four commercial customers and higher fuel billings in 2012.
Other receivable - Insurance	(0.3)	Decrease due to insurance funds received in relation to the failure on a 7.59 MW unit.
Inventories	0.6	Increase in value of fuel inventory.
Property, plant and and equipment	7.3	Net increase is comprised of capital expenditures of (1) $30.8 million; (2) depreciation expense of $22.7 million; (3) $0.4 million in accrued capital expenditure and (4) $1.2 million of insurance and asset sale proceeds.
Bank overdraft	5.1	Increase in bank overdraft.
Accounts payable and accrued expenses	(3.0)	Decrease in Accrued Expenses.
Short-term debt	25.0	Increase is due to an additional drawdown of $25.0 million.
Current portion of Long-term debt	4.0	Increase due to allocation of principal on 5.65% unsecured loan note from long-term debt.
Long-term debt	(19.5)	Decrease due to principal repayments of $15.5 million and $4.0 million allocated to current debt.
Share premium	1.7	The Company issued 181,279 shares through its share purchase plans.

Financial Position

The table *"Significant Changes in Balance Sheets"* is a summary of significant changes to the Company's balance sheet from December 31, 2011 to December 31, 2012.

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 rights offering that occurred in 2008 and through the Company's Share Purchase Plans.

Certain of the Company's short and 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, 2012, the Company was in compliance with all debt covenants.

The Company's capital structure at December 31, 2012 displays an increase in debt when compared to December 31, 2011 due to debt proceeds of $25.0 million received in June 2012.

The Company's credit ratings under Standard & Poor's ("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.

In September 2012 S&P affirmed the Company's 'A-' rating and stable outlook. This rating reflects S&P's positive view of the Company's current position as the sole provider of generation services, and the Company's licenced 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 stable outlook reflects S&P's expectation of predictable cash flows and credit metrics in a stabilizing environment.

In February 2013 DBRS affirmed the Company's 'A' credit rating while maintaining the categorisation of low with a Stable trend. Considerations for the rating were a supportive regulatory regime, solid credit metrics and a stable island economy and demand for electricity. Impacting the rating were such factors as hurricane event risk and small size of the customer base.

Capital Expenditures

($ millions)

	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011	Change	Change %
Transmission	**0.1**	1.4	(1.3)	(93%)
Distribution	**15.6**	14.1	1.5	11%
Generation	**13.9**	23.2	(9.3)	(40%)
Other	**1.2**	0.9	0.3	33%
Total	**30.8**	39.6	(8.8)	(22%)

The above amounts are inclusive of accruals

Capital Expenditures

($ millions)

The above amounts are inclusive of accruals

Credit Facilities

The Company has $47.0 million of unsecured credit financing facilities with the Royal Bank of Canada ("RBC") (see the *"Credit Facilities"* table).

Of the total, $8.8 million was available at December 31, 2012.

Capital Expenditures

Capital expenditures for Fiscal 2012 were $30.8 million, a $8.80 million, or 22% decrease from $39.6 million in capital expenditures for the same period of the previous year. The capital expenditures for Fiscal 2012 primarily relate to:

» Distribution system extension and upgrades - $13.1 million.
» Generation upgrades - $5.6 million.
» Purchase of two mobile generating units (utilizing insurance proceeds) to replace a damaged 7.59 MW unit - $1.9 million.
» Purchase of AMI meters and meter equipment - $2.8 million.
» AFUDC of $3.5 million was capitalised in Fiscal 2012.

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 effect liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at December 31, 2012.

Business Risks

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

Operational Risks

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

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

Economic Conditions

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

Regulation

The Company operates within a regulated environment. As such the operations of the Company are subject to the normal uncertainties faced by regulated companies. Such uncertainties include approval by the 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.

Credit Facilities

	($ millions)
Corporate credit card line	0.4
Letters of credit	0.6
Operating, revolving line of credit	7.5
Catastrophe standby loan	7.5
Demand loan facility - interim funding of capital expenditures	31.0
Total	47.0

Weather

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

Environmental Matters

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

In 2004, CUC was initially registered to the ISO 14001 which is the international standard for Environmental Management System ("EMS"). The Company continuously adheres with the standard and the renewal of the registration occurred in May 2010. The next scheduled renewal is 2013. Renewals occur every three years. In March 2007 the Kyoto Protocol was signed by the Cayman Islands; this framework aims to reduce Greenhouse Gas emissions produced by certain industries. Specific details on the regulations have yet to be released by the Government and are required to assess the financial impact of compliance by the Company with the framework.

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

Insurance - Terms and Coverage

The Company renewed its insurance policy as at July 1, 2012 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

Caribbean Plaza is a new commercial development comprising of four two-storey building located just opposite the Caribbean Club on West Bay Road. This new complex will consist of four buildings approximately 53,000 square-feet gross floor area consisting of office and retail space. The buildings will be 10 feet above sea level, high quality, and energy efficient with the latest technologies. The Plaza is scheduled for completion in early 2014.

main power plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of $100 million. Each "loss occurrence" is subject to a deductible of $1.0 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of $1.0 million and maximum deductible of $4.0 million for all interests combined.

In accordance with the T&D Licence when an asset is impaired or disposed of, within 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.

Defined Benefit Pension Plan

The Company maintains a defined benefit pension plan. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The assumed long-term rate of return on pension plan assets, for the purposes of estimating pension expense for 2013, is 5%. This compares to assumed long-term rates of return of 5% used during 2012. The gain on pension plan assets during 2012 was 7% (2011: loss 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 2013 is 3.7% compared to the discount rate assumed during 2012 of 4.5%.

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

Transition to US GAAP:

Effective January 1, 2012, CUC retroactively adopted US GAAP with the restatement of comparative reporting periods. The area of most significant financial statement impacts upon adopting US GAAP relates to the recognition of the funded status of the defined benefit plan on the balance sheet.

The above-noted item does not represent the only difference between US GAAP and Canadian GAAP. Other less significant differences have also been identified and accounted for. A detailed description of the differences and a reconciliation between the Company's annual audited Canadian GAAP and annual audited US GAAP financial statements for 2011 is disclosed in Note 27 to the Company's voluntarily filed annual audited US GAAP financial statements with accompanying notes thereto for the year ended December 31, 2011, with 2010 comparatives. A detailed reconciliation between the Company's interim unaudited 2011 Canadian GAAP and interim unaudited 2011 US GAAP financial statements is provided in the above-noted voluntarily filed document under the section "2011 Supplemental Interim Financial Statement Reconciliations" (Unaudited).

The audited quantification and reconciliation of the Company's balance sheet as at December 31, 2011, prepared in accordance with US GAAP versus Canadian GAAP, may be summarised as follows.

- Liabilities as of December 31, 2011 increased by $2.8 million. The increase is due to the increase in the pension liability in accordance with US GAAP.
- Shareholders' equity as of December 31, 2011 decreased by $2.8 million. The decrease is due to the recognition of the past service costs and net actuarial losses related to the defined benefit plan in accordance with US GAAP.

- Other assets as of December 31, 2011 increased by $1.6 million. The increase is due to the reclassification of deferred debt costs in accordance with US GAAP.
- Long-term debt as of December 31, 2011 increased by $1.6 million. The increase is due to the reclassification of deferred debt costs in accordance with US GAAP.

There were no adjustments to the Company's 2011 earnings under US GAAP due to the Company's continued ability to apply rate-regulated accounting policies.

New US GAAP Accounting Pronouncements:

The following new US GAAP accounting pronouncements that are applicable to, and were adopted by, CUC effective beginning January 1, 2012 are described as follows:

Presentation of Comprehensive Income

The Company retroactively adopted the amendments to Accounting Standards Codification ("ASC") Topic 220, Comprehensive Income. The amended standard requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. CUC continues to report the components of comprehensive income in two separate but consecutive statements.

Fair Value Measurement

The Company retroactively adopted the amendments to ASC Topic 820, Fair Value Measurements and Disclosures. The amended standard improves comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP. The amendment does not change what items are measured at fair value but instead makes various changes to the guidance pertaining to how fair value is measured and the required disclosures. The above-noted changes did not materially impact the Company's consolidated financial statements for Fiscal 2012.

Future Accounting Pronouncements

Disclosures About Offsetting Assets and Liabilities

Effective January 1, 2013, the Company will adopt the amendments to ASC Topic 210 *"Balance Sheet Disclosures About Offsetting Assets and Liabilities"* as outlined in Accounting Standards Update ("ASU") No. 2011-11. The amendments improve the transparency of the effect or potential effect of netting arrangements on a company's financial position by expanding the level of disclosures required by entities for such arrangements. The amended disclosures are intended to assist financial statement users in understanding significant quantitative differences between balance sheets prepared under US GAAP and IFRS.

CUC does not expect that the adoption of the above amendments will have a material impact on its consolidated financial statements.

Critical Accounting Estimates

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

Revenue Recognition

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2012, the amount of unbilled revenue recorded in Accounts Receivable - Trade was $3.8 million (December 31, 2011: $4.6 million). Consumers are billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue.

Kilowatt-hour Sales

Kilowatt-hour sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. The kWh accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for electricity consumption will result in adjustments of kWh sales statistics in the periods they become known when actual results differ from the estimates. As at December 31, 2012, the amount of estimated kWh sales was 26.6 million kWh. As bills are generated at the beginning of each month it is necessary to accrue for kWh for accurate reporting.

Employee Future Benefits

The Company's defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation. There are currently two participants in the Company's defined benefit pension plan. The main assumptions utilised by Management in determining pension expense and obligations were the discount rate for the accrued benefit obligation, pension commencement date, inflation and the expected rate of return on plan assets. As at December 31, 2012, the Company had a long-term liability of $1.9 million (December 31, 2011: $2.8 million).

Property, Plant and Equipment Depreciation

Depreciation, by its very nature is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at December 31, 2012, the net book value of the Company's PP&E was $377.1 million compared to $369.8 million as at December 31, 2011, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for Fiscal 2012 was $22.7 million and $20.6 million for Fiscal 2011. Due to the value of the Company's property, plant and equipment, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

Selected Annual Financial Information

The table *"Selected Annual Financial Information"* shows the Annual Financial Information for the financial years ended December 31, 2012, 2011 and 2010.

2012 Fourth Quarter Results

Net earnings for the three months ended December 31, 2012 ("Fourth Quarter 2012") were $4.1 million, a 20% or $1.0 million decrease when compared to $5.1 million for the three months ended December 31, 2011 ("Fourth Quarter 2011"). Higher depreciation and transmission and distribution costs for the Fourth Quarter 2012 when compared to the Fourth Quarter 2011 were partially offset by higher electricity sales revenues.

Kilowatt-hour sales for the Fourth Quarter 2012 were 132.4 million comparable to 132.6 million for the Fourth Quarter 2011. Sales were negatively impacted by cooler weather conditions that affected customer air conditioning usage. The average temperature for the Fourth Quarter 2012 was 1.4 degrees Fahrenheit lower than the average temperature experienced during the

Selected Annual Financial Information

(in $ thousands except Basic Earnings per Class A Ordinary Share, dividends paid per Class A Ordinary Share and where otherwise indicated

	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011	Twelve months ended December 31, 2010
Operating revenues	**223,549**	218,099	180,096
Net earnings	**17,691**	20,390	19,879
Net earnings applicable to common shares	**16,762**	19,484	18,926
Total assets	**434,972**	423,339	400,100
Debt	**219,500**	210,000	196,500
Preference shares	**250**	250	250
Total shareholders' equity	**173,866**	173,255	172,216
Earnings per Class A Ordinary Share	**0.58**	0.68	0.67
Diluted earnings per Class A Ordinary Share	**0.58**	0.68	0.67
Dividends declared per Class A Ordinary Share	**0.660**	0.660	0.660
Dividends declared per Class B Preference Shares including participating dividend	**3.72**	3.72	3.72

Fourth Quarter 2011.

Total operating expenses for the Fourth Quarter 2012 increased 4% to $54.0 million from $51.7 million for the Fourth Quarter 2011. The main contributing factors to the increase in operating expenses were depreciation, transmission and distribution and higher power generation expenses which were comprised predominantly of fuel costs.

Cash flow provided by operations, after working capital adjustments, for the Fourth Quarter 2012, was $5.8 million, a decrease of $3.1 million when compared to $8.9 million for the Fourth Quarter 2011. This decrease was primarily due to changes in non cash working capital balances. Cash used in investing activities totalled $9.3 million for the Fourth Quarter 2012, a decrease of $0.7 million from $10.0 million for the Fourth Quarter 2011. This decrease is due to decreased capital related expenditures. Cash utilised in financing activities totalled $1.3 million for the Fourth Quarter 2012, a decrease of $0.2 million from $1.5 million used in financing activities for the Fourth Quarter 2011. The Company utilised $6.2 million of the overdraft facility during the Fourth Quarter 2012, and repaid debt of $3.0 million and paid dividends of $4.9 million. In the Fourth Quarter 2011 the Company utilised $0.4 million of the overdraft facility and $6.0 million in short term debt and repaid $3.0 million in debt and paid $5.4 million in dividends.

Capital expenditures for the Fourth Quarter 2012 were $9.2 million, a $0.7 million, or 7% decrease from $9.9 million in capital expenditures for the Fourth Quarter 2011.

Quarterly Results

The table *"Quarterly Results"* summarises unaudited quarterly information for each of the eight quarters ended March 31, 2011 through December 31, 2012. This information has been obtained from CUC's unaudited interim Financial Statements, which in the opinion of Management, have been prepared in accordance with Canadian GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

December 2012/December 2011

Net earnings for the Fourth Quarter 2012 were $4.1 million, a 20% or $1.0 million decrease when compared to $5.1 million for the Fourth Quarter 2011. Higher depreciation and transmission and distribution costs for the Fourth Quarter 2012 when compared to the Fourth Quarter 2011 were partially offset by higher electricity sales revenues.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2012 were $3.5 million, or $0.11 per Class A Ordinary Share, as compared to $4.5 million, or $0.15 per Class A Ordinary Share for the Fourth Quarter 2011.

September 2012/September 2011

Net earnings for the three months ended September 30, 2012 ("Third Quarter 2012") totalled $6.6 million, an increase of $0.3 million, or 5%, when compared to $6.3 million for the three months ended September 30, 2011 ("Third Quarter 2011"). Lower finance charges and an increase in other income were partially offset by a 1% decline in kWh sales and higher depreciation costs for the Third Quarter 2012 when compared to the Third Quarter 2011.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2012 were $6.5 million, an increase of

Quarterly Results

($ thousands except basic and diluted earnings per Class A Ordinary Share)

	Operating Revenue	Net Earnings	Income applicable to Class Ordinary A Shares	Earnings per Class A Ordinary Share	Diluted earnings per Class A Ordinary Share
December 31, 2012	59,087	4,061	3,468	0.12	0.12
September 30, 2012	58,870	6,582	6,469	0.22	0.22
June 30, 2012	53,940	5,146	5,033	0.18	0.18
March 31, 2012	51,653	1,907	1,794	0.06	0.06
December 31, 2011	57,733	5,082	4,489	0.15	0.15
September 30, 2011	62,453	6,253	6,140	0.22	0.22
June 30, 2011	53,945	5,924	5,811	0.20	0.20
March 31, 2011	43,967	3,131	3,044	0.11	0.11

$0.4 million, or 7%, from $6.1 million, for the Third Quarter 2011. Earnings per Class A Ordinary Share for the Third Quarter 2012 were $0.22, comparable to Earnings per Class A Ordinary Share for the Third Quarter 2011.

June 2012/June 2011

Net earnings for the three months ended June 30, 2012 ("Second Quarter 2012") totalled $5.1 million, a decrease of $0.8 million, or 14%, when compared to $5.9 million for the three months ended June 30, 2011 ("Second Quarter 2011"). A 3% decline in kWh sales and higher depreciation costs and finance charges were partially offset by decreased general and administration, consumer service and maintenance costs for the Second Quarter 2012 when compared to the Second Quarter 2011.

Net earnings in the Second Quarter 2011 were positively impacted by the temporary cessation of depreciation expenses on a damaged generating unit which has since been returned to service (see *"Depreciation"* section of this MD&A for further details). In mid-2011, the Company closed on $40 million of long-term financing resulting in higher interest costs for the Second Quarter of 2012 when compared to the Second Quarter 2011 (see *"Other Income and Expenses"* section of this MD&A for further details).

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2012 were $5.0 million, or $0.18 per Class A Ordinary Share, a decrease of $0.8 million when compared to $5.8 million, or $0.20 per Class A Ordinary Share for the Second Quarter 2011.

March 2012/March 2011

Net earnings for the three months ended March 31, 2012 ("First Quarter 2012") totalled $1.9 million, a decrease of $1.1 million, or 37%, when compared to $3.0 million for the three months ended March 31, 2011 ("First Quarter 2011"). A 1% increase in kWh sales and lower maintenance costs were offset by an increase in general and administration, financing and depreciation costs for the First Quarter 2012 when compared to the First Quarter 2011.

Net earnings in the First Quarter 2011 were positively impacted by the temporary cessation of depreciation expenses on a damaged generating unit which has since been returned to service (see *"Depreciation"* section of this MD&A for further details). General and administration expenses for the First Quarter 2012 included a one-time charge of $0.3 million related to restructuring costs incurred to further streamline the Company's organisational structure (see *"General and Administrative"* section of this MD&A for further details). In mid-2011, the Company closed on $40 million of long-term financing resulting in higher interest costs for the First Quarter of 2012 when compared to the First Quarter 2011 (see *"Other Income and Expenses"* section of this MD&A for further details).

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2012 were $1.8 million, or $0.06 per Class A Ordinary Share, a decrease of $1.3 million when compared to $3.1 million, or $0.11 per Class A Ordinary Share for the First Quarter 2011.

Disclosure Controls and Procedures

The President and Chief Executive Officer ("CEO") and the 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 twelve months ending December 31, 2012; 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 December 31, 2012.

Internal Controls over Financial Reporting ("ICFR")

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

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated Framework by the Committee of Sponsoring

Organizations of the Treadway Commission (COSO). Based on the assessment, it was concluded that CUC's internal controls over financial reporting are adequately designed and operating effectively as of December 31, 2012.

There has been no change in the Company's ICFR that occurred during the period beginning on October 1, 2012 and ended on December 31, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

A Certificate of Need was issued by the Company in November 2011, driven primarily by the upcoming retirement of some of the Company's generating units. In March 2012 the ERA solicited Request for Proposals (RFP) for additional generation capacity from six Qualified Bidders (including CUC). CUC submitted its bid in July 2012.

In February 2013, the Company was advised that another local Company, DECCO Ltd., had won the bid. CUC is currently reviewing the ERA's analysis of the bids.

The proposed 2013 to 2017 CIP totalling $124.6 million of non-generation installation expenditures was submitted to the ERA in October 2012 for approval. During this period of low growth, CIP initiatives focus on improving reliability of service and operational efficiencies.

Outstanding Share Data

At March 14, 2013 the Company had issued and outstanding 28,805,956 Ordinary Shares and 250,000 9% cumulative Participating Class B Preference Shares.

Additional information, including CUC's Annual Information Form, is available on SEDAR at *www.sedar.com* and on the Company's website *www.cuc-cayman.com*.

Letitia T. Lawrence
Vice President Finance & Chief Financial Officer

March 15, 2013

Management's Responsibility for Financial Reporting

The accompanying Annual Consolidated Financial Statements of Caribbean Utilities Company, Ltd. and all information in the 2012 Annual Report have been prepared by management, who are responsible for the integrity of the information presented, including the amounts that must of necessity be based on estimates and informed judgements. These Annual Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States. Financial information contained elsewhere in the 2012 Annual Report is consistent with that in the Annual Consolidated Financial Statements.

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

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

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

The Annual Consolidated Financial Statements and Management's Discussion and Analysis contained in the 2012 Annual Report were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of the Company. Ernst & Young, independent auditors appointed by the shareholders of the Company upon recommendation of the Audit Committee, have performed an audit of the Annual Consolidated Financial Statements and their report follows.

Letitia T. Lawrence
Vice President Finance & Chief Financial Officer

Caribbean Utilities Company, Ltd.

J.F. Richard Hew
President & Chief Executive Officer

Caribbean Utilities Company, Ltd.

Auditors' Report

To the Shareholders of Caribbean Utilities Company, Ltd.

We have audited the accompanying consolidated financial statements of Caribbean Utilities Company, Ltd., which comprise the consolidated balance sheets as at December 31, 2012 and 2011 and the consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Caribbean Utilities Company, Ltd. as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Ernst + Young Ltd.

Ernst & Young Ltd.
Grand Cayman, Cayman Islands

March 15, 2013

Consolidated Balance Sheets

(Expressed in thousands of United States dollars)

	Note	As at December 31, 2012 $	As at December 31, 2011 $
Assets			
Current Assets			
Cash and cash equivalents		**694**	424
Accounts receivable	*4*	**20,002**	15,910
Other receivable - Insurance	*5*	**123**	438
Regulatory assets	*6*	**25,795**	25,759
Inventories	*7*	**4,380**	3,807
Prepayments		**2,558**	2,636
		53,552	48,974
Property, plant and equipment	*8*	**377,106**	369,832
Other assets	*9*	**1,388**	1,714
Intangible assets	*10*	**2,926**	2,819
Total Assets		**434,972**	423,339
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank overdraft	*12*	**6,200**	1,059
Accounts payable and accrued expenses	*11*	**28,550**	31,576
Regulatory liabilities	*6*	**345**	281
Short-term debt	*12*	**31,000**	6,000
Current portion of long-term debt	*13*	**19,500**	15,500
Consumers' deposits and advances for construction		**4,585**	4,357
		90,180	58,773
Defined benefit pension liability	*20*	**1,926**	2,811
Long-term debt	*13*	**169,000**	188,500
Total Liabilities		**261,106**	250,084
Shareholders' Equity			
Share capital *(Authorised: 60,000,000 Class A OrdinaryShares of CI$0.05 each)*	*14*	**1,965**	1,954
Share premium	*14*	**78,524**	76,806
Additional paid in capital	*15*	**450**	415
Retained earnings		**94,647**	96,827
Accumulated other comprehensive loss	*20*	**(1,720)**	(2,747)
Total Shareholders' Equity		**173,866**	173,255
Total Liabilities and Shareholders' Equity		**434,972**	423,339

See accompanying Notes to Annual Consolidated Financial Statements

Approved on behalf of the Board of directors by:

David E. Ritch, OBE, JP
Director

J.F. Richard Hew
Director

Consolidated Statements of Earnings

(Expressed in thousands of United States dollars except Basic, Diluted Earnings and Dividends Declared per Class A Ordinary Share and Weighted Average Number of Class A Ordinary Shares)

	Note	**Twelve months ended December 31, 2012 $**	Twelve months ended December 31, 2011 $
Operating Revenues			
Electricity sales		**69,111**	69,630
Fuel factor		**154,438**	148,469
Total Operating Revenues		**223,549**	218,099
Operating Expenses			
Power generation		**157,677**	151,714
General and administration		**9,635**	9,254
Consumer services		**1,549**	1,616
Transmission and distribution		**2,406**	1,998
Depreciation		**22,690**	20,570
Maintenance		**6,602**	7,622
Amortization of intangible assets		**373**	308
Total Operating Expenses		**200,932**	193,082
Operating Income		**22,617**	25,017
Other (Expenses)/Income			
Finance charges	*19*	**(9,125)**	(8,659)
Foreign exchange gain	*21*	**2,165**	2,125
Other income		**2,034**	1,907
Total Net Other (Expenses)/Income		**(4,926)**	(4,627)
Earnings for the Period		**17,691**	20,390
Preference dividends paid on Class B Shares		**(929)**	(906)
Earnings on Class A Ordinary Shares		**16,762**	19,484
Weighted average number of Class A Ordinary Shares issued and fully paid	*16*	**28,699**	28,523
Basic Earnings per Class A Ordinary Share	*16*	**0.58**	0.68
Diluted Earnings per Class A Ordinary Share	*16*	**0.58**	0.68
Dividends declared per Class A Ordinary Share		**0.660**	0.660

See accompanying Notes to Annual Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

(Expressed in thousands of United States dollars)

	Note	**Twelve months ended December 31, 2012 $**	Twelve months ended December 31, 2011 $
Earnings for the Period		**17,691**	20,390
Other comprehensive income/(loss)			
Amounts arising during the period:			
Defined benefit pension plans:			
Net actuarial (loss)/gain	*20*	**252**	(1,485)
Reclassification to net income:			
Defined benefit pension plans:			
Amortization of prior service costs	*20*	**248**	249
Amortization of net actuarial loss	*20*	**527**	40
Total other comprehensive income/(loss)		**1,027**	(1,196)
Comprehensive Income		**18,718**	19,194

See accompanying Notes to Annual Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

(Expressed in thousands of United States dollars except Common Shares)

	Common Shares *(in thousands)*	Common Shares Value $	Preference Shares $	Share Premium $	Additional Paid-in Capital $	Accumulated Other Comprehensive Loss $	Retained Earnings $	Total Equity $
As at January 1, 2012	**28,625**	**1,704**	**250**	**76,806**	**415**	**(2,747)**	**96,827**	**173,255**
Net earnings	-	-	-	-	-	-	17,691	17,691
Common share Issuance and stock options plans	181	11	-	1,718	35	-	-	1,764
Defined benefit plans	-	-	-	-	-	1,027	-	1,027
Dividends on common shares	-	-	-	-	-	-	(18,942)	(18,942)
Dividends on preference shares	-	-	-	-	-	-	(929)	(929)
As at December 31, 2012	**28,806**	**1,715**	**250**	**78,524**	**450**	**(1,720)**	**94,647**	**173,866**
As at January 1, 2011	**28,465**	**1,694**	**250**	**75,281**	**372**	**(1,551)**	**96,170**	**172,216**
Net earnings	-	-	-	-	-	-	20,390	20,390
Common share issuance and stock options plans	160	10	-	1,525	43	-	-	1,578
Defined benefit plans	-	-	-	-	-	(1,196)	-	(1,196)
Dividends on common shares	-	-	-	-	-		(18,827)	(18,827)
Dividends on preference shares	-	-	-	-	-	-	(906)	(906)
As at December 31, 2011	**28,625**	**1,704**	**250**	**76,806**	**415**	**(2,747)**	**96,827**	**173,255**

Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars)

	Twelve months ended December 31, 2012 $	Twelve months ended December 31, 2011 $
Operating Activities		
Earnings for the period	**17,691**	20,390
Items not affecting cash:		
Depreciation	**22,690**	20,570
Amortization of intangible assets	**373**	308
Non-cash pension expenses	**141**	-
Amortization of deferred financing costs	**197**	187
Stock-based compensation	**35**	47
	41,127	41,502
Change in non-cash working capital balances related to operations:		
Accounts receivable	**(4,091)**	(4,067)
Other receivable - insurance	**315**	1,750
Inventory	**(573)**	(733)
Prepaid expenses	**77**	(174)
Accounts payable and accrued expenses	**(3,873)**	5,765
Net change in regulatory deferrals	**29**	(4,465)
Other	**822**	(2,467)
Cash flow related to operating activities	**33,833**	37,111
Investing Activities		
Purchase of property, plant and equipment	**(30,788)**	(39,624)
Costs related to intangible assets	**(372)**	(554)
Insurance funds received	**1,051**	4,771
Proceeds on sale of property, plant and equipment	**48**	19
Cash flow related to investing activities	**(30,061)**	(35,388)
Financing Activities		
Proceeds from debt financing	**25,000**	46,000
Repayment of debt	**(15,500)**	(32,500)
Increase in bank overdraft	**5,141**	1,059
Dividends paid	**(19,872)**	(19,757)
Net proceeds from share issues	**1,729**	1,536
Cash flow related to financing activities	**(3,502)**	(3,662)
Increase/(Decrease) in net cash and cash equivalents	**270**	(1,939)
Cash and cash equivalents - beginning of period	**424**	2,363
Cash and cash equivalents - end of period	**694**	424
Supplemental disclosure of cash flow information:		
Interest paid during the period	**12,032**	12,079

See accompanying Notes to Annual Consolidated Financial Statements

Notes to Annual Consolidated Financial Statements

(Expressed in thousands of United States dollars unless otherwise stated)

1. Nature of Operations and Financial Statement Presentation

These consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP") and reflect the decisions of the Electricity Regulatory Authority ("ERA"). 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 consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary DataLink, Ltd. ("DataLink").

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 21.5 year non–exclusive Generation Licence (collectively the "Licences") with the Cayman Islands Government (the "Government"), which expire in April 2028 and September 2029 respectively.

The Company was incorporated on April 30, 1966 under the laws of the Cayman Islands. On November 7, 2006, the Company announced that its majority shareholder, Fortis Inc. through its wholly-owned subsidiary, Fortis Energy (Bermuda) Ltd. ("Fortis"), acquired an additional 16% of the outstanding Class A Ordinary Shares of CUC from International Power Holdings Limited ("IPHL") and four other vendors associated with IPHL. Fortis owns a controlling interest in CUC by beneficially holding approximately 60% of the outstanding Class A Ordinary Shares of CUC.

In late March 2012 CUC's wholly owned subsidiary, DataLink, received its licence from the Information and Communications Technology Authority ("ICTA"), which permits DataLink to provide fibre optic infrastructure and other information and communication technology ("ICT") services to the ICT industry.

The ICTA is an independent statutory Authority which was created by the enactment of the Information and Communications Technology Authority Law on May 17, 2002 and is responsible for the regulation and licencing of Telecommunications, Broadcasting, and all forms of radio. The ICTA sets the standards by which ICT networks must be developed and operated under.

All significant intercompany balances and transactions have been eliminated on consolidation.

Rate Regulated Operations

CUC's base rates are designed to recover and earn a return on all non-fuel and regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel cost charges and licence 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"). The ERA reviewed and approved a rate increase for June 2012 of 0.7% as a result of the 2011 RORB and the slight increase in the applicable United States and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2011. All fuel and lubricating oil costs are passed through to customers without markup 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 for electricity services as reported in the Company's consolidated financial statements. The original book value of these fixed assets include an Allowance for Funds Used During Construction ("AFUDC") (Note 8) and an allowance for General Expenses Capitalised ("GEC") (Note 8). GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity.

2. Summary of Significant Accounting Policies

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. The Company's critical accounting estimates relate to:

Regulatory Assets and Liabilities

Regulatory assets and liabilities arise as a result of the rate-setting process and license stipulations for CUC. Regulatory assets represent future revenues and/or receivables associated with certain costs incurred that will be, or are expected

(Expressed in thousands of United States dollars)

to be, recovered from customers in future periods through the rate setting process. Regulatory liabilities represent future reductions or limitations of increases in revenue associated with amounts that will be, or are expected to be, refunded to customers through the rate-setting process.

All amounts deferred as regulatory assets and liabilities have been approved by the regulator.

Revenue Recognition

Revenue from the sale of electricity is recognized on an accrual basis. Electricity is metered upon delivery to customers and recognised as revenue when consumed using rates that are approved by the ERA. Billing rates are generally bundled to include service associated with generation, transmission and distribution. Meters are read monthly and bills are issued to customers based on these readings. At the end of each period, a certain amount of consumed electricity will not have been billed. Electricity consumed but not yet billed to customers are estimated and accrued as unbilled revenue at each period end.

Transmission is the conveyance of electricity at high voltages (generally at 69 kilovolts ("kV") and higher). Distribution networks convey electricity from transmission systems to end-use customers.

CUC passes through 100% of fuel costs to consumers on a two-month lag basis. This is recorded as Fuel Factor Revenues.

Consolidation Policy

The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiary, Datalink. All significant intercompany balances and transactions have been eliminated in consolidation.

Kilowatt-hour Sales

Kilowatt-hour sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. The kWh accrual for the period is based on estimated electricity sales to customers since the last meter reading.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, bank demand deposits and bank fixed deposits maturing within three months of the date of acquisition. At December 31, 2012, there were no cash equivalents.

Accounts Receivable

Accounts receivable are included in the balance sheet net of the allowance for doubtful accounts and are due within 21 days of billing. Insurance receivables are recorded when recovery becomes reasonably assured.

Allowance for Doubtful Accounts

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. Accounts receivables are written-off in the period in which the receivable is deemed uncollectible; only inactive customers qualify for write-off. Inactive customers are customers who no longer have electricity service. Customers with past-due accounts are eligible for a short-term payment programme ("STPP"), in order to ensure that electricity service is not made inactive due to non-payment of past due amounts.

Inventories

Fuel and lube oil are carried at cost. Line inventory is carried at cost less provision for obsolescence. Inventories are consumed/utilised on an average cost basis. Inventories are valued at lower of cost and net realizable value.

Property, Plant and Equipment

Property, plant and equipment ("PP&E") are stated at cost.

The cost of additions to PPE is the original cost of contracted services, direct labour and related overheads, materials, GEC and AFUDC. Line inventory that is foreseeable as capitalisable is included in PP&E less provision for obsolescence. Major spare parts and stand-by equipment to be used during more than one period qualify as PP&E. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of PP&E, they are accounted for as PP&E. Damaged PP&E are written off, or appropriate provision made, where damage relates to assets that will be reconstructed.

The Company capitalises certain overhead costs not directly attributable to specific PP&E but which do relate to the overall

(Expressed in thousands of United States dollars)

capital expenditure programme GEC. Additionally, the Company capitalises an AFUDC, which represents the cost of debt and equity financing incurred during construction of PP&E.

Upon disposition of PP&E the original cost will be removed from the capital asset accounts and that amount net of salvage proceeds will also be removed from accumulated depreciation. As such, any resulting gain or loss will be charged to accumulated depreciation.

Depreciation is provided on the cost of PP&E, except for freehold land, capitalised projects in progress, line inventory and spare parts which are not depreciated, on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Transmission and distribution	20 to 50
Generation	20 to 50
Other: Buildings	20 to 50
Motor Vehicles	5 to 15
Equipment and computers	3 to 20

Depreciation, by its very nature is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets.

Intangible Assets
Intangible assets include deferred licence renewal costs, computer software and trademark expenses. Intangible assets, excluding trademark expenses and assets in progress are being amortized on a straight-line basis over the life of the asset. Deferred licence renewal costs are being amortized over 20 years on a straight-line basis. Computer software costs are being amortized over a range of 3 to 10 years on a straight-line basis.

Foreign Exchange
Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars at the exchange rate prevailing on the Balance Sheet date. Revenue and expense items denominated in foreign currencies are translated into United States Dollars at the exchange rate prevailing on the transaction date. Gains and losses on translation are included in the Consolidated Statement of Earnings.

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

Other Income
Other income is comprised of pole rental fees, income from pipeline operations, sale of meter sockets, sale of recyclable metals and other miscellaneous income.

Other Income is recognised when sales are delivered, services are rendered and rental fees are recognised on a linear basis on the period of the lease.

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

Fair Values
The fair value of financial assets and liabilities has been determined from market values where available. Where fair values of financial instruments with an immediate or short-term maturity are considered to approximate cost, this fact is disclosed. Fair value of financial assets and liabilities for which no market value is readily available is determined by the Company using future cash flows discounted at an estimated market rate. In establishing an estimated market rate, the Company has evaluated the existing transactions, as well as comparable industry and economic data and other relevant factors such as pending transactions.

Capital Stock
Dividend Reinvestment Plan
All dividends payable on Class A Ordinary Shares recorded for participation in the Plan, including Class A Ordinary Shares acquired and retained under the Plan, will be used by CUC to purchase additional Class A Ordinary Shares at the prevailing market price for the Participant's account on the Investment Date.

(Expressed in thousands of United States dollars)

Customer Share Purchase Plan ("CSPP")
The CSPP provides an opportunity for customers resident in Grand Cayman to invest in CUC. Customers may make cash payments of not less than $30 per purchase and up to a total of $14,000 per year for the purchase of Class A Ordinary Shares of CUC; and retain the Class A Ordinary Shares in the Plan and have the cash dividends on such shares reinvested in additional Class A Ordinary Shares. In both instances, the Class A Ordinary Shares are acquired from CUC at not more than 100% of the average market price which is calculated using the daily closing prices of CUC Class A Ordinary Shares on the Toronto Stock Exchange over a specified period.

Employee Share Purchase Plan ("ESPP")
The Company provides interest-free advances to employees to purchase Class A Ordinary Shares, with such advances recovered through payroll deductions over the next twelve months. The maximum semi-annual participation is 1,000 Class A Ordinary Shares per employee. The plan is non-compensatory as shares purchased by the employee are obtained at the prevailing market value at the time of purchase. The amount owing to the Company from employees is included as an offset to Share Capital and Share Premium on the Balance Sheets (2012: $0.07 million, 2011: $0.03 million).

Executive Stock Option Plan
The Company accounts for its executive stock option grants using the fair value method, where any compensation expense is amortised over the vesting period of the options.

The Company has a policy of measuring compensation expense upon the issuance of stock options. Using the fair value method, the compensation expense is amortised over the four-year vesting period of the options. Upon exercise, the proceeds of the option are credited to Share Capital at CI$0.05 and the difference from the exercise price to Share Premium. Therefore an exercise of options below the current market price has a dilutive effect on capital stock and Shareholders' Equity.

Employee Benefit Plans
The Company maintains defined contribution pension plans for its employees and defined benefit pension plans for the retired Chairman of the Company's Board of Directors as well as the retired President and Chief Executive Officer, who continues to be an active employee in a consultancy role. The pension costs of the defined contribution plan are recorded as incurred.

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. Past service costs from plan initiation are amortised on a straight-line basis over the remaining service period of the employee active at the date of initiation. The excess of any cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year, are deferred and amortised over the remaining service period of the employee. The balance of any such actuarial gain (loss) is recognised in Accumulated Other Comprehensive Income. The Company's defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation.

Financial Instruments
The Company designates its investments in debt and equity securities into one of the following three categories: (i) held for trading, (ii) available-for-sale, (iii) held to maturity. All financial instruments are initially measured at fair value. Subsequent adjustment of held-to-maturity instruments are taken to the Statement of Earnings, whereas changes in fair value for available-for-sale instruments are recorded in other comprehensive income. Debt securities classified as held to-maturity are recorded at amortized cost.

The Company's policy is to defer transaction costs associated with financial assets and liabilities. These transaction costs are amortized into earnings using the effective interest rate method over the life of the related financial instrument. Outstanding balances are recognised in "Other Assets" on the Balance Sheet.

Derivatives
The Company uses derivatives 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 electricity service. The programme utilises call spreads to promote transparency in pricing. The programme utilises call spreads creating a ceiling price for fuel costs at pre-determined contract premiums.

The derivatives entered into by the Company are measured at fair value and subject to rate regulation. Subsequently, all contracts are recognised as either regulatory assets of liabilities. Any resulting gains or losses and changes to fair value are

(Expressed in thousands of United States dollars)

recorded in the regulatory asset/regulatory liability accounts, subject to regulatory approval. Cash inflows and outflows associated with the settlement of all derivative instruments are included in operating cash flows on the Company's statements of cash flows.

3. Future Accounting Pronouncements

Disclosures About Offsetting Assets and Liabilities
Effective January 1, 2013, the Company will adopt the amendments to ASC Topic 210 *"Balance Sheet - Disclosures About Offsetting Assets and Liabilities"* as outlined in Accounting Standards Update ("ASU") No. 2011-11. The amendments improve the transparency of the effect or potential effect of netting arrangements on a company's financial position by expanding the level of disclosures required by entities for such arrangements. The amended disclosures are intended to assist financial statement users in understanding significant quantitative differences between balance sheets prepared under US GAAP and IFRS.

CUC does not expect that the adoption of the above amendments will have a material impact on its consolidated financial statements.

4. Accounts Receivable

Accounts Receivable

($ thousands)

	As at December 31, 2012	As at December 31, 2011
Billings to consumers	**14,106**	9,275
Unbilled revenue	**3,757**	4,602
Other receivables	**2,314**	2,179
Related parties	**9**	10
Allowance for doubtful accounts	**(184)**	(156)
Total accounts receivable	**20,002**	15,910

Unbilled Revenues
Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. Consumers are billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue.

Other
Other receivables relate to amounts due outside of the normal course of operations. Items in other accounts receivable include sale of inventory and machine break-down costs covered by warranties. Other receivables at December 31, 2012 also include billing adjustments for commercial customers.

Related Party Transactions
Miscellaneous payables to Fortis Turks & Caicos, also a subsidiary of Fortis Inc. totalling $0.001 million were outstanding at December 31, 2012 (nil as at December 31, 2011) for travel expenses and are included within the Accounts Payable and Accrued Expenses on the Consolidated Balance Sheet. Miscellaneous receivables from Fortis Turks & Caicos were nil at December 31, 2012 ($0.01 million as at December 31, 2011). Prior year amounts related to engineering assistance and were included within Accounts Receivable on the Consolidated Balance Sheet. Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totalling $0.05 million were outstanding at December 31, 2012 (nil as at December 31, 2011) for labour, insurance and travel expenses are included within the Accounts Payable and Accrued Expenses on the Consolidated Balance Sheet. Miscellaneous receivables from Fortis Inc. were $0.01 million at December 31, 2012 (nil as at December 31, 2011) for travel expenses and are included within Accounts Receivable on the Consolidated Balance Sheet.

(Expressed in thousands of United States dollars)

5. Other Receivable - Insurance

Other Receivable - Insurance

($ thousands)

	As at December 31, 2012	As at December 31, 2011
Unit 1 claim	-	250
Other insurance claims	123	188
Total	123	438

On January 28, 2011, equipment associated with a MaK 9 megawatt ("MW") diesel generating unit (Unit 1) was damaged due to an explosion during a start process. The costs of the repairs are covered by the Company's insurance policy subject to a deductible of $0.5 million.

Other insurance claims relate to the incidents experienced in 2011. The ongoing claims process is expected to be completed in 2013.

6. Regulatory Assets and Liabilities

Regulatory Assets and Liabilities

($ thousands)

Asset/Liability	Description	As at December 31, 2012	As at December 31, 2011
Regulatory assets	Fuel tracker account (a)	23,694	24,369
Regulatory assets	Derivative contract (b)	837	468
Regulatory assets	Miscellaneous regulatory assets (c)	384	440
Regulatory assets	Government and Regulatory Tracker account (d)	880	482
Regulatory assets	Total	25,795	25,759
Regulatory liabilities	Miscellaneous regulatory liabilities (e)	(345)	(281)
Regulatory liabilities	Total	(345)	(281)

(a) Fuel Tracker Account – The 2008 T&D Licence established a fuel tracker mechanism to ensure the Company and consumers neither gain nor lose from the pass through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from or reimbursed to consumers. The receivable or payable value represents a regulatory asset or liability. The net position of the fuel tracker accounts fluctuates monthly and is affected by fuel prices and electricity consumption.

(b) Derivative contract - The Company's purpose of hedging is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers in the face of price volatility for the fuel that the Company must purchase in order to provide electric service. This account represents the fair value adjustments for the call options. The Company's call option contracts will expire on or before October 31, 2013.

(c) Miscellaneous regulatory assets represent costs incurred by the Company, other than fuel and the specifically itemised licence and regulatory fees, to be recovered through the Company's base rates on terms as agreed with the ERA.

(Expressed in thousands of United States dollars)

(d) Government and Regulatory Tracker Account - A licence fee of 1% of gross revenues applies to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per kWh basis. Additionally, a regulatory fee of ½ of 1% is charged on gross revenues then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The government and regulatory tracker account is the actual fee incurred less the amount of funds received from consumers. The per kWh charge is then adjusted quarterly for the balance of this account.

(e) Miscellaneous regulatory liabilities represent costs owed by the Company, other than licence and regulatory fees, to be recovered through the Company's base rates on terms as agreed with the ERA.

7. Inventories

The composition of inventories is shown as:

Inventories

($ thousands)

	As at December 31, 2012	As at December 31, 2011
Fuel	**3,643**	3,055
Lube	**636**	608
Line spares	**75**	104
Other	**26**	40
Total	**4,380**	3,807

(Expressed in thousands of United States dollars)

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

Property, Plant and Equipment

($ thousands)

	Cost	Accumulated Depreciation	Net Book Value December 31, 2012
T&D	274,398	87,826	186,572
Generation	276,637	107,474	169,163
Other:			
Land	5,304	-	5,304
Buildings	20,017	9,469	10,548
Equipment, motor vehicles and computers	19,384	13,865	5,519
Total other	44,705	23,334	21,371
Property, plant and equipment	595,740	218,634	377,106

	Cost	Accumulated Depreciation	Net Book Value December 31, 2011
T&D	256,752	79,346	177,406
Generation	271,069	100,854	170,215
Other:			
Land	5,304	-	5,304
Buildings	19,913	8,812	11,101
Equipment, motor vehicles and computers	19,136	13,330	5,806
Total other	44,353	22,142	22,211
Property, plant and equipment	572,174	202,342	369,832

Included in PP&E are a number of capital projects in progress with a total cost to date of $36.8 million (December 31, 2011: $20.4 million). These projects primarily relate to various improvements to the Distribution System.

Also included in Generation and T&D is freehold land with a cost of $5.0 million (December 31, 2011: $5.0 million). In addition, line inventory with a cost of $5.5 million (December 31, 2011: $5.6 million) is included in T&D. Engine spares with a net book value of $15.9 million (December 31, 2011: $16.3 million) are included in Generation.

The capitalisation of "Financing Costs" 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 fiscal 2012 is 8.25% (2011: 8.75%) and will be adjusted annually. As a result, during the year ended December 31, 2012, the Company recognised $3.5 million in AFUDC. The Company recognised an amount of $3.7 million for the year ended December 31, 2011 under the provision for AFUDC.

The Company capitalised an amount of $3.1 million for the year ended December 31, 2012 (December 31, 2011: $2.9 million) under the provision for GEC (see Note 1).

In accordance with the Licences when an asset is impaired or disposed of, before 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 the rate regulations standard under US GAAP and differs from non-regulatory treatment of a loss being recognised on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. This amount within accumulated depreciation is to be depreciated as per the remaining life of the asset based on the original life when the unit was initially placed into service. In June 2012, the Company retired a 7.59 MW unit, with an original book value of $6.7 million. The remaining net book value of the unit was charged to accumulated depreciation.

(Expressed in thousands of United States dollars)

9. Other Assets

Other Assets

($ thousands)

	As at December 31, 2012	As at December 31, 2011
Deferred debt issue costs	**1,356**	1,552
Miscellaneous other assets	**32**	162
Total	**1,388**	1,714

Deferred debt issue costs relate to transaction costs incurred in respect of financial liabilities. These costs are deferred on the balance sheet and are being amortized over the life of the related note using the effective-interest rate method

10. Intangible Assets

Intangible Assets

($ thousands)

	Cost	Accumulated Amortization	Net Book Value December 31, 2012
Deferred licence renewal costs	1,890	439	1,451
DataLink Ltd. deferred licence renewal costs	231	10	221
Computer software	4,654	3,599	1,055
Other intangible assets in progress	124	-	124
Trademark costs	75	-	75
Total	6,974	4,048	2,926

	Cost	Accumulated Amortization	Net Book Value December 31, 2011
Deferred licence renewal costs	1,890	344	1,546
Computer software	4,263	3,354	909
Other intangible assets in progress	289	-	289
Trademark costs	75	-	75
Total	6,517	3,698	2,819

Deferred licence renewal costs relate to negotiations with the Government for licences for the Company. Amortization of deferred licence renewal costs commenced upon conclusion of licence negotiations in April 2008 and extends over the life of the T&D Licence. Amortization of DataLink's deferred licence renewal costs commenced upon conclusion of licence negotiations in March 2012 and extends over the life of its ICTA licence.

(Expressed in thousands of United States dollars)

The expected amortization of existing intangible assets for the next five years is as follows:

($ thousands)

	2013	2014	2015	2016	2017
Computer software	345	286	274	269	251
Licence renewal costs	105	108	108	108	108
Total	450	394	382	377	359

The weighted-average amortization for intangible assets is as follows:

	As at December 31, 2012
Computer software	8.89 years
Deferred licence renewal costs	20 years
DataLink deferred licence renewal costs	15 years
Total weighted-average amortization period	19 years

11. Accounts Payable and Accrued Expenses

Accounts Payable and Accrued Expenses

($ thousands)

	As at December 31, 2012	As at December 31, 2011
Fuel cost payable	**21,790**	23,552
Trade accounts payable and accrued expenses	**2,594**	4,959
Accrued interest	**891**	951
Dividends payable	**592**	593
Other accounts payable	**2,683**	1,521
Total accounts payable	**28,550**	31,576

Included in “Other Accounts Payable” is an amount related to the fuel option contracts (see Note 17) of $0.8 million at December 21, 2012 ($0.5 million at December 21, 2011).

(Expressed in thousands of United States dollars)

12. Short-Term Financing

The Company has $47.0 million of unsecured credit financing facilities with the Royal Bank of Canada ("RBC"). In May 2012 the Company renegotiated and increased the credit facilities agreement with RBC. The total available was $8.8 million at December 31, 2012 ($24.9 million at December 31, 2011).

Short-Term Financing

($ thousands)

Credit Facilities	Total Credit Financing Facilities	Total Utilised December 31, 2012	Total Available December 31, 2012
Corporate credit card line *	400	400	-
Letters of credit - 1% per annum	600	600	-
Operating, revolving line of credit - Prime plus 0.5% per annum	7,500	6,200	1,300
Catastrophe standby loan - Libor plus 1.5% per annum	7,500	-	7,500
Demand loan facility - interim funding of capital expenditures - Libor plus 1.5% per annum	31,000	31,000	-
Total	47,000	38,200	8,800

* *Included in Accounts payable and accrued expenses.*

A stand-by fee of 1/5 of 1% per annum in arrears is applied to the unused portion of the capital expenditure and catastrophe lines of the facility. A review fee of 1/8 of 1% of the total credit facilities is incurred annually in arrears.

13. Long-Term Debt

Long-Term Debt

($ thousands)

	As at December 31, 2012	As at December 31, 2011
6.47 % Senior Unsecured Loan Notes due 2013	**2,500**	5,000
7.64 % Senior Unsecured Loan Notes due 2014	**6,000**	9,000
6.67 % Senior Unsecured Loan Notes due 2016	**12,000**	15,000
5.09 % Senior Unsecured Loan Notes due 2018	**24,000**	28,000
5.96 % Senior Unsecured Loan Notes due 2020	**24,000**	27,000
5.65 % Senior Unsecured Loan Notes due 2022	**40,000**	40,000
7.50 % Senior Unsecured Loan Notes due 2024	**40,000**	40,000
4.85 % Senior Unsecured Loan Notes due 2026	**15,000**	15,000
5.10 % Senior Unsecured Loan Notes due 2031	**25,000**	25,000
	188,500	204,000
Less: Current portion of long-term debt	**(19,500)**	(15,500)
	169,000	188,500

(Expressed in thousands of United States dollars)

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

Year	$
2013	19,500
2014	17,000
2015	14,000
2016	14,000
2017	11,000
2018 and later	113,000

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

14. Capital Stock

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

Capital Stock

	As at December 31, 2012	As at December 31, 2011
Class A Ordinary Shares of CI$0.05 each	**60,000,000**	60,000,000
9% Cumulative participating Class B Preference Shares of US$1.00 each	**250,000**	250,000
Class C Preference Shares of US$1.00 each	**419,666**	419,666
Cumulative participating Class D Share of CI$0.56 each	**1**	1

15. Share Options

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

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

Share Options

	Dec. 31, 2012 Number of options	Dec. 31, 2012 Weighted average exercise price per share	Weighted average remaining contractual term (years)	Aggregate intrinsic value ($ millions)
Outstanding at beginning of period	462,600	11.74	-	-
Granted	187,000	9.66	-	-
Exercised	(13,700)	8.76	-	-
Forfeited	(8,400)	12.44	-	-
Expired	(21,600)	8.76	-	-
Outstanding at end of period	605,900	11.18	5.45	0.84
Vested, end of period	388,600	12.10	3.53	0.90

(Expressed in thousands of United States dollars)

On March 9, 2012, 187,000 options were granted under the Executive Stock Option Plan at an exercise price of $9.66. The options vest on the basis of one quarter of the grant on each of the first through fourth anniversaries of the dates of the grant and bear a term of 10 years from the date of grant, thereby expiring on March 9, 2022. The fair value of each option granted was calculated to be $0.02 per option. The fair value was estimated on the date of the grant using the Black-Scholes fair value option pricing model and the following assumptions:

Dividend Yield (%):	7.00
Expected Volatility (%):	5.50
Risk-free interest rate (%):	2.00
Expected life (years):	7.00

The following table summarizes additional information related to the stock options during 2012 and 2011:

Share Options

($ millions)

	2012	2011
Stock options expense recognised	**0.03**	0.05
Stock options exercised:		
Cash received for exercise of options	**0.01**	0.05
Intrinsic value realised by employees	**0.01**	0.005

Under the fair value method, the compensation expense was $0.03 million for the year ended December 31, 2012 (December 31, 2011: $0.01 million), resulting in a corresponding increase of Additional Paid in Capital.

Under the fair value method, the compensation expense recognized had a corresponding increase to Additional Paid-in Capital.

Share Options

($ millions)

	Number of Options	Weighted average grant date fair value
Non-vested options, January 1, 2012	**110,700**	0.69
Granted	**187,000**	0.02
Vested	**72,000**	0.64
Cancelled/Forfeited	**8,400**	0.78
Non-vested options, December 31, 2012	**217,300**	0.13

The unrecognised compensation expense related to non-vested share options for the year ended December 31, 2012 was $0.01 million (December 31, 2011: $0.02 million).

16. Earnings per Share

The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average Class A Ordinary Shares outstanding were 28,698,657 and 28,523,127 for the year ended December 31, 2012 and December 31, 2011 respectively.

The weighted average of Class A Ordinary Shares used for determining diluted earnings were 28,713,842 and 28,531,471

(Expressed in thousands of United States dollars)

for the year ended December 31, 2012 and December 31, 2011 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at December 31, 2012 the outstanding options are not materially dilutive as the market price of common shares is below or marginally higher than the exercise price.

Earnings per Share

	Earnings Dec. 31, 2012 *($ thousands)*	Weighted average shares Dec. 31, 2012 *($ thousands)*	Earnings per common shares Dec. 31, 2012
Net earnings applicable to common shares	16,762	-	-
Weighted average shares outstanding	-	28,699	-
Basic earnings per common share	-	-	0.58
Effect of potential dilutive securities:			
Stock options	-	15	-
Diluted earnings per common share	16,762	28,714	0.58

	Earnings Dec. 31, 2011 *($ thousands)*	Weighted average shares Dec. 31, 2011 *($ thousands)*	Earnings per common shares Dec. 31, 2011
Net earnings applicable to common shares	19,484	-	-
Weighted average shares outstanding	-	28,523	-
Basic earnings per common share	-	-	0.68
Effect of potential dilutive securities:			
Stock options	-	9	-
Diluted earnings per common share	19,484	28,532	0.68

17. 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.

(Expressed in thousands of United States dollars)

The estimated fair values of the Company's financial instruments, including derivative financial instruments, are as follows:

	Dec. 31, 2012 Carrying value	Dec. 31, 2012 Fair value	Dec. 31, 2011 Carrying value	Dec. 31, 2011 Fair value
Long-term debt, including current portion	188,500	214,647	204,000	233,231
Fuel option contracts *	837	837	468	468

* *Carrying value of fuel options contracts included in Accounts Payable and Accrued Expenses.*

The fair value of long-term debt is determined by discounting the future cash flows of each debt instrument at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

The Company measures the fair value of commodity contracts on a daily basis using the closing values observed on commodities exchanges and in over-the-counter markets, or through the use of industry-standard valuation techniques, such as option modelling or discounted cash flow methods, incorporating observable valuation inputs. The resulting measurements are the best estimate of fair value as represented by the transfer of the asset or liability through an orderly transaction in the marketplace at the measurement date.

The fair value of the fuel option contract reflects only the value of the heating oil derivative and not the offsetting change in the value of the underlying future purchases of heating oil. The derivatives' fair value shown in the below table reflects the estimated amount the Company would pay to terminate the contract at the stated date. The fair value has been determined using published market prices for heating oil commodities. The Company's option contracts will expire on or before October 31, 2013.

The derivatives entered into by the Company relate to regulated operations and any resulting gains or losses and changes to fair value are recorded in the regulatory asset/regulatory liability accounts, subject to regulatory approval and passed through to customers in future rates.

The following table summarizes the fair value measurements of 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.

	Dec. 31, 2012 Total fair value	Dec. 31, 2012 Level 1 Quoted prices in active markets for identical assets	Dec. 31, 2012 Level 2 Significant other inputs	Dec. 31, 2012 Level 3 Significant unobservable inputs
Long-term debt, including current portion	214,647	-	214,647	-
Fuel option contracts *	837	-	837	-

* *Carrying value of fuel options contracts included in Accounts Payable and Accrued Expenses.*

18. Financial Risk Management

The Company is primarily exposed to credit risk, liquidity risk and interest rate risk as a result of holding financial instruments in the normal course of business.

Credit Risk:
The Company is exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments which include fuel option contracts. If a counterparty fails to perform on its contractual obligation to deliver

(Expressed in thousands of United States dollars)

payment when the market price of fuel is greater than the strike price, the Company may find it necessary to purchase diesel at the market price, which will be higher than the contract price. The Company manages this credit risk associated with counterparties by conducting business with high credit-quality institutions. The Company does not expect any counterparties to fail to meet their obligations.

There is risk that 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 requirements for security deposits for certain customers, which are advance cash collections from customers to guarantee payment of electricity billings; reduces the exposure to credit risk. CUC manages credit risk primarily by executing its credit collection policy, including the requirement for security deposits, through the resources of its customer service department.

Liquidity Risk:
The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factor are mitigated by the legal requirement per the Licences which requires rates be set to enable the Company to achieve and maintain a sound credit rating in the financial markets of the world.

($ millions)

	Total	2012	2013 - 2014	2015 - 2016	2017 - Onward
Bank overdraft	6.2	6.2	-	-	-
Accounts payable and accrued expenses	28.6	28.6	-	-	-
Consumer's deposits and advances for Construction	4.6	4.6	-	-	-
Short-term debt	31.0	31.0	-	-	-
Letter of credit	0.6	0.6	-	-	-
Long-term debt	188.5	19.5	31.0	25.0	113.0
Long-term debt interest	73.8	10.8	18.5	15.2	29.3
Total	333.3	101.3	49.5	40.2	142.3

Interest Rate Risk:
Long-term debt is issued at fixed interest rates, thereby minimising cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings is $31.0 million.

19. Finance Charges

The composition of finance charges were as follows:

Finance Charges

($ thousands)

	Year ended December 31, 2012	Year ended December 31, 2011
Interest costs - long-term debt	**11,852**	11,904
Other interest costs	**755**	428
AFUDC *	**(3,482)**	(3,673)
Total	**9,125**	8,659

* *Refer to PP&E (Note 8) with regards to AFUDC methodology*

(Expressed in thousands of United States dollars)

20. Employee Future Benefits

All employees of the Company are members of a defined contribution Pension Plan established for the exclusive benefit of employees of the Company and which complies with the provisions of the National Pensions Law. As a term of employment, the Company contributes 7.5% of wages or salary in respect of employees who have completed 15 years of continuous service and have attained the age of 55 years, 10% of salary for the CEO and 5% of wages or salary for all other employees. All contributions, income and expenses of the plan are accrued to, and deducted from, the members' accounts. The total expense recorded in respect of employer contributions to the plan for the year ended December 31, 2012 amounted to $0.84 million (December 31, 2011: $0.85 million). The Pension Plan is administered by an independent Trustee.

During 2003, the Company established a defined benefit pension plan for a Director of the Company. In May 2005, the Company's Board of Directors approved the establishment of a defined benefit pension plan for the retired President and Chief Executive Officer. The pension cost of the defined benefit plan is actuarially determined using the projected benefits method. In April 2007, the Company established an independent trust and the defined benefit plans were amalgamated at that time. An independent actuary performs a valuation of the obligations under the defined benefit pension plans at least every three years. The latest actuarial valuation of the pension plans for funding purposes is as at December 31, 2012.

The Company's broad investment objectives are to achieve a high rate of total return with a prudent level of risk taking while maintaining a high level of liquidity and diversification to avoid large losses and preserve capital over the long-term.

The Company's defined benefit pension plan fund has a strategic asset allocation that targets a mix of 40% to 70% equity investments, 20% to 40% fixed income investments, and 25% cash/cash equivalent securities. The fund's investment strategy emphasizes traditional investments in global equity and fixed income markets, using a combination of different investment styles and vehicles. The pension fund's equity investments include publicly traded investment grade equities, convertible debentures and real estate corporations. The fixed income investments include bonds issued by the United States Treasury, investment grade bonds, investment grade corporate bonds, investment grade Eurobonds and investment grade preference shares which are publicly traded. These equity and debt security vehicles include closed end or open end mutual or pooled funds.

The Company's defined benefit pension plan asset allocation was as follows:

Defined Benefit Pension Plan Asset Allocation

(%)

	As at December 31, 2012	As at December 31, 2011
Equity assets	**46%**	41%
Fixed income investments	**34%**	39%
Money market funds	**11%**	18%
Cash and cash equivalents	**9%**	2%
Total	**100%**	100%

The assets of the fund are traded and priced on active markets such as the New York Stock Exchange, American Stock Exchange, NASDAQ, etc. The fair values of assets are provided by external quotation services which are considered reliable, but due to the nature of the market data, the accuracy of such prices cannot be guaranteed. Securities listed on a US national stock exchange are priced as of the close of the statement period. Corporate bonds, municipal bonds and other fixed income securities are priced by a computerized pricing service. Mutual fund shares are priced at net asset value. The fair value measurements of the Company's defined benefit pension plan assets by fair value hierarchy level are as follows:

(Expressed in thousands of United States dollars)

Asset Allocation

December 31, 2012	Quoted price in active markets for identical assets or liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Equity assets	2,420	-	-	2,420
Fixed income investments	-	1,805	-	1,805
Money market funds	-	615	-	615
Cash	465	-	-	465
Total	2,885	2,420	-	5,305

December 31, 2011	Quoted price in active markets for identical assets or liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Equity assets	1,759	-	-	1,759
Fixed income investments	-	1,677	-	1,677
Money market funds	-	779	-	779
Cash	99	-	-	99
Total	1,858	2,456	-	4,314

(Expressed in thousands of United States dollars)

Pension Plan

	2012	2011
Projected Benefit Obligation		
Balance beginning of year	**7,125**	5,887
Interest cost	**309**	321
Actuarial (gains)/losses	**(115)**	996
Benefit payments	**(87)**	(79)
Balance end of year	**7,232**	7,125
Plan Assets		
Fair value, beginning of year	**4,314**	4,217
Actual return on plan assets	**369**	(269)
Employer contributions to plan	**709**	445
Benefit payments	**(87)**	(79)
Fair value, end of year	**5,305**	4,314
Funded Status - deficit	**(1,926)**	(2,811)
During the year ended December 31, 2012, $0.9 million (December 31, 2011: $0.4 million) was recorded as compensation expense, which comprises the following:		
Interest cost	**309**	321
Expected return on plan assets	**(232)**	(221)
Amortization of past service costs	**248**	249
Amortization of actuarial losses	**527**	40
	852	389
Significant assumptions used:		
Discount rate during year (%)	**4.3**	5.5
Discount rate at year end (%)	**3.7**	4.5
Rate of compensation increase (%)	**3.00**	3.00
Expected long-term rate of return on plan assets (%)	**5.00**	5.00
Average remaining service period (years)	**5.00**	2.00

The Accumulated Benefit Obligation (“ABO”) as at December 31, 2012 was $6.5 million (December 31, 2011: 6.4 million).

(Expressed in thousands of United States dollars)

The following table summarizes the employee future benefit assets and liabilities and their classification in the balance sheet:

Employee Future Benefit Assets and Liabilities

($ thousands)

	2012	2011
Assets:		
Other assets	**8**	14
Liabilities:		
Defined benefit pension liabilities	**1,926**	2,811

The following tables provide the components of other comprehensive loss for the years ended December 31, 2012 and 2011:

($ thousands)

	2012	2011
Net (loss)/gain arising during the period	**252**	(1,485)
Amortization or curtailment recognition of past service (credit)/cost	**248**	249
Amortization or settlement recognition of net actuarial gain/(loss)	**527**	40
Total changes recognised in other comprehensive income	**1,027**	(1,196)

The Company's unrecognised amounts included in accumulated other comprehensive income (loss) yet to be recognised as components of the net periodic benefit cost are as follows:

($ thousands)

	2012	2011
Past service credit (cost)	**(331)**	(579)
Net actuarial gain/(loss)	**(1,389)**	(2,168)
Accumulated other comprehensive loss at year end	**(1,720)**	(2,747)
Cumulative employer contributions in excess of net periodic benefit cost	**(206)**	(64)
Net liability amount recognised in statement of financial position	**(1,926)**	(2,811)

Net actuarial losses of $0.1 million and past service costs of $0.2 million are expected to be amortized from accumulated other comprehensive loss into net benefit costs in 2013.

During 2013, the Company is expected to make contributions of $0.3 million to the defined benefit pension plan.

(Expressed in thousands of United States dollars)

The following table provides the amount of benefit payments expected to be paid by the plan for each of the following years:

($ millions)	Total
2013	0.09
2014	0.09
2015	0.09
2016	0.09
2017	0.09
2018 to 2022	1.82

21. Foreign Exchange

The closing rate of exchange on December 31, 2012 as reported by the Bank of Canada for the conversion of US dollars into Canadian dollars was Cdn$0.9949 per US$1.00. The official exchange rate for the conversion of Cayman Islands dollars into US dollars as determined by the Cayman Islands Monetary Authority is fixed at CI$1.00 per US$1.20. Thus, the rate of exchange as of December 31, 2012 for conversion of Cayman Islands dollars into Canadian dollars was Cdn$1.194 per CI$1.00 (December 31 2011: Cdn$1.220).

22. 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 $0.85 per IG of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports.

23. Commitments

The Company executed a primary fuel supply contract with Rubis Cayman Islands Limited (“Rubis”) in September 2012 upon the expiration of its previous fuel supply contracts. Under the agreement the Company is committed to purchase approximately 60% of its diesel fuel requirements for its Power Plant from Rubis. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2012 - 6.5, 2013 - 19.4 and 2014 - 11.3. The Company also executed a secondary fuel supply contract with Esso Cayman Limited (“Esso”) in September 2012 and is committed to purchase approximately 40% of the Company’s diesel fuel requirements for its Power Plant from Esso. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2012 - 4.3, 2013 - 13.0 and 2014 - 7.6. Both contracts expire July 31, 2014 with the option to renew for two additional 18 month terms. Renewal cannot occur more than six months in advance of the current contract expiry date. The point of delivery for fuel billing purposes is at the suppliers terminal. The Company is also responsible for the management of the fuel pipeline and ownership of bulk fuel inventory at the North Sound Road Power Plant.

As a result of the Company’s bulk fuel inventory, the value of CUC’s closing stock of fuel at December 31, 2012 was $4.4 million (December 31, 2011: $3.1 million). This amount includes all fuel held in CUC’s bulk fuel storage tanks, service tanks and day tanks located at the North Sound Road Power Plant.

Ten-Year Summary

(Except where noted, expressed in thousands of United States dollars)

	2012	2011
Operating revenues	**223,549**	218,099
Other revenues and adjustments	**4,199**	4,032
Total revenues	**227,748**	222,131
Operating expenses	**200,932**	193,082
Income before interest	**26,816**	29,049
Finance charges	**9,125**	8,659
Earnings for the year	**17,691**	20,390
Capitalisation:		
Class A Ordinary Shares (nominal value)	**1,714**	1,704
9% Cumulative Participating Class B Preference Shares (nominal value)	**250**	250
Share Premium	**78,524**	76,806
Long-term loans	**188,500**	204,000
Total capitalisation	**269,055**	282,793
Capital expenditures	**30,788**	39,624
Earnings per Class A Ordinary Share ($/Share)	**0.58**	0.68
Dividends per Class A Ordinary Share ($/Share)	**0.66**	0.66
Book value per Class A Ordinary Share ($/Share)	**6.03**	6.04
Statistical Record:		
Net kWh generation (millions of kWh)	**587.1**	594.0
Net kWh sales (millions of kWh)	**547.8**	554.0
Peak load (MW) gross	**95.9**	99.0
Plant capacity (MW)	**149.54**	151.2
Total customers (actual number)	**27,035**	26,636

Numbers for 2012 and 2011 are stated in US GAAP. Numbers for 2010 and prior are stated in Canadian GAAP

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

2010	2009	TP 2008	2008	2007	2006	2005	2004
180,096	158,809	150,348	175,981	158,859	135,677	92,871	106,643
3,108	3,109	2,526	3,016	2,851	8,721	10,041	2,276
183,204	161,918	152,874	178,997	161,711	144,398	102,912	108,919
154,182	134,834	135,122	144,673	133,812	112,328	90,190	81,223
29,022	27,084	17,752	34,324	27,898	32,070	12,722	27,696
9,143	7,071	5,153	10,564	9,444	9,212	8,498	7,709
19,879	20,013	12,599	23,760	18,454	22,858	4,224	19,987
1,694	1,683	1,672	1,513	1,508	1,505	1,490	1,480
250	250	250	250	250	250	250	250
75,355	73,729	72,092	43,216	42,230	41,656	39,022	37,328
178,290	200,159	174,643	184,790	165,540	156,038	141,521	138,395
255,589	275,821	240,657	229,769	209,528	199,449	182,283	177,453
21,433	42,665	27,986	44,617	35,586	33,940	39,788	20,041
0.67	0.67	0.45	0.90	0.70	0.87	0.13	0.77
0.66	0.66	0.495	0.66	0.66	0.66	0.33	0.66
6.07	5.90	5.87	5.41	5.15	5.09	4.82	4.98
593.5	597.40	400.74	578.40	546.07	485.52	393.51	485.63
553.8	558.10	376.60	539.56	510.64	456.04	375.74	450.27
102.1	97.50	93.77	92.71	86.83	79.04	85.03	79.06
151.2	152.60	136.60	136.60	123.50	114.63	114.63	127.40
26,151	25,461	24,518	24,042	22,768	21,115	19,011	21,127

Board of Directors

J. Bryan Bothwell, MBE *
Retired Banking Executive
Grand Cayman

Frank J. Crothers +
Vice Chairman of the Board of Directors
Caribbean Utilities Company, Ltd.

Chairman
Island Corporate Holdings Ltd.
Bahamas

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

Joseph A. Imparato
Retired Chairman
Caribbean Utilities Company, Ltd.
Grand Cayman

Earl A. Ludlow
President and Chief Executive Officer
Newfoundland Power Inc.
Newfoundland
Canada

H. Stanley Marshall +
President and Chief Executive Officer
Fortis Inc.
Newfoundland
Canada

Eddinton M. Powell, JP *
President and Chief Executive Officer
FortisTCI
Providenciales

David E. Ritch, OBE, JP * +
Chairman of the Board of Directors
Caribbean Utilities Company, Ltd.

Attorney-at-Law
Ritch and Conolly
Grand Cayman

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

Lynn R. Young
President and Chief Executive Officer
Belize Electric Company Ltd.
Belize

* *Member Audit Committee (Chairman: J. Bryan Bothwell)* + *Member Nominating and Corporate Governance Committee (Chairman: David E. Ritch)*

Officers

David C. Watler
Vice President Production

Letitia T. Lawrence
Vice President Finance & Chief Financial Officer

J.F. Richard Hew
President & Chief Executive Officer

Andrew E. Small
Vice President Transmission & Distribution

Shareholder and Corporate Information

Shareholders

Registered shareholders as of December 31, 2012 were as follows:

Class of Shares	*Shareholders*	*Shares Held*
Class A Ordinary Shares	1,837	28,805,956
9% Class B Preference Shares	125	250,000

Fortis Energy (Bermuda) Ltd., a wholly-owned subsidiary of Fortis Inc., held 17,290,644 Class A Ordinary Shares, or 60% of the outstanding shares as of December 31, 2012. Approximately 11% of the outstanding registered shares are held by residents of the Cayman Islands. Holders of Class B Preference Shares are primarily resident in the Cayman Islands.

Annual General Meeting

Shareholders are invited to attend the Annual General Meeting of the Company to be held Friday, May 17, 2013 at noon at the Marriott Beach Resort on West Bay Road, Grand Cayman. If you are unable to attend, please complete and return the form of proxy in accordance with the instructions set out in the accompanying meeting material.

Dividends

Class A Ordinary Shares:
Quarterly dividends are customarily paid in March, June, September and December. Record dates are normally three weeks prior to payable dates.

Class B Preference Shares:
Quarterly dividends are paid on the last day of January, April, July and October. Record dates are normally three weeks prior to payable dates.

Dividend Reinvestment Plan

The Company offers a Dividend Reinvestment Plan to Class A Ordinary and Class B Preference shareholders. Dividends may be reinvested in additional Class A Ordinary Shares. A copy of the plan and enrolment form may be obtained by writing or calling either of the Company's Registrar and Transfer Agents (addresses and telephone numbers in right column) or through the Company's website (www.cuc-cayman.com).

Customer Share Purchase Plan

The Customer Share Purchase Plan ("CSPP") was launched in January 1995 and provides an opportunity for customers resident in Grand Cayman to invest in the Company without paying brokerage commissions or transaction fees. Customers may make cash payments of not less than $30 (CI$25) per purchase and up to a total of $14,400 (CI$12,000) per calendar year for the purchase of Class A Ordinary Shares. Quarterly cash dividends paid on the shares are reinvested in additional Class A Ordinary Shares under the CSPP. Full details of the CSPP may be obtained from CUC's Customer Service Department.

Solicitors

Appleby
P.O. Box 190
Grand Cayman KY1-1104
CAYMAN ISLANDS

Auditors

Ernst & Young Ltd.
P.O. Box 510
Grand Cayman KY1-1106
CAYMAN ISLANDS

Principal Bankers

Royal Bank of Canada
P.O. Box 245
Grand Cayman KY1-1104
CAYMAN ISLANDS

Duplicate Annual Reports

While every effort is made to avoid duplications, some shareholders may receive extra reports as a result of multiple share registrations. Shareholders wishing to consolidate these accounts should contact the Registrar and Transfer Agents.

Registrar and Transfer Agents

CIBC Mellon Trust Company
P.O. Box 4202, Postal Station A
Toronto, Ontario, Canada M5W 0E4
Answerline™: (416) 682-3825 or 1-800-387-0825
(Toll-free throughout North America)
Fax: (888) 249-6189
Website: www.canstockta.com
(Acting as principal agent)

Caribbean Utilities Company, Ltd.
P.O. Box 38, Grand Cayman KY1-1101, CAYMAN ISLANDS
Attention: Company Secretary
Telephone: (345) 949-5200
Fax: (345) 949-4621
Website: www.cuc-cayman.com
E-mail: investor@cuc.ky
(Acting as co-agent)

Toronto Stock Exchange Listing

The Company's Class A Ordinary Shares are listed for trading in United States funds on the Toronto Stock Exchange. The stock symbol is "CUP.U". There is no income or withholding tax applicable to holders of Class A Ordinary or Class B Preference Shares under the existing laws of the Cayman Islands.

Registered Office

Caribbean Utilities Company, Ltd.
P.O. Box 38, Grand Cayman KY1-1101, CAYMAN ISLANDS
Telephone: (345) 949-5200
Fax: (345) 949-4621
Website: www.cuc-cayman.com
E-mail: investor@cuc.ky

Credits

Photography	:	Neil Murray Caribbean Utilities Company, Ltd. Miguel Escalante The Photo Centre
Paper	:	This Annual Report is printed on Anthem Matte by NewPage Corporation, which contains 10% post-consumer recycled fibre content. Printed in the USA