



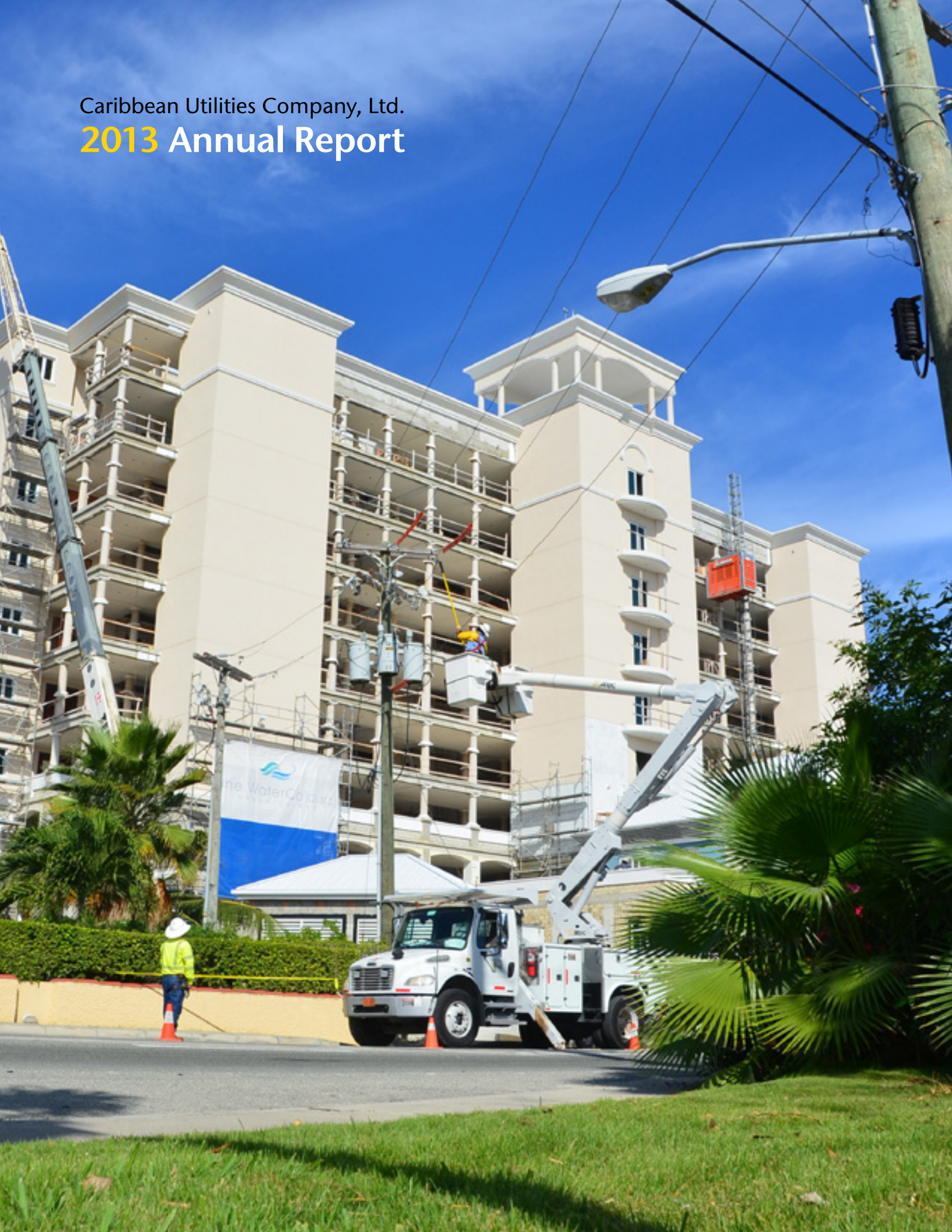
Caribbean Utilities Company, Ltd.
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Caribbean Utilities Company, Ltd.
2013 Annual Report



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.

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Highlights

Financial Results in Brief

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

	Twelve months ended Dec. 31, 2013 \$	Twelve months ended Dec. 31, 2012 \$	Change %
Operating revenue	226,220	223,549	1%
Electricity sales	71,131	69,111	3%
Fuel factor	155,089	154,438	0%
Total operating expenses	201,080	200,932	0%
Finance charges	9,018	9,125	(1)%
Earnings for the period	20,422	17,691	15%
Total assets	435,750	434,972	0%
Total shareholders' equity	178,292	173,866	3%
Cash from operations	49,940	33,833	48%
Earnings per Class A Ordinary Share (\$ per share)	0.68	0.58	17%
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)	6.13	6.03	2%
Class A Ordinary Shares (\$ per share)			
Market price: High (\$ per share)	11.80	10.60	11%
Low (\$ per share)	9.35	9.17	2%
Year-end (\$ per share)	10.96	9.40	17%

Performance

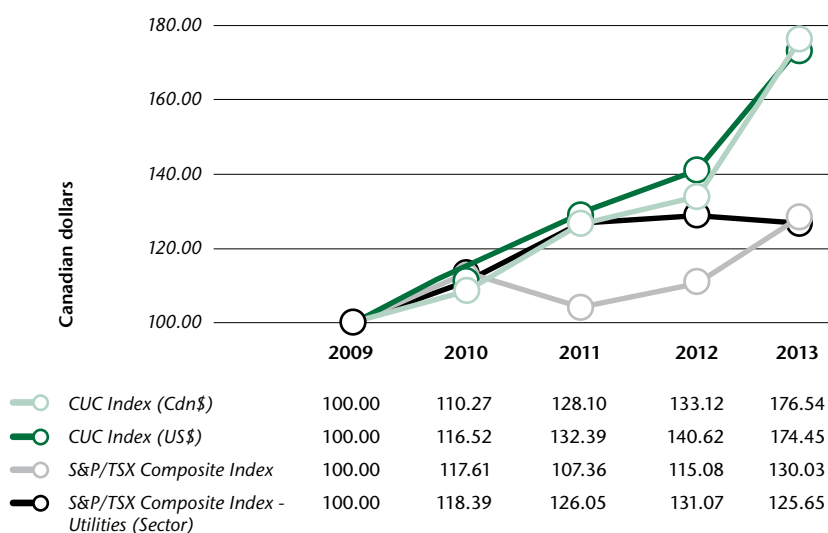
Net earnings for the twelve months ended December 31, 2013 were \$20.4 million. A 1% increase in kilowatt-hour sales, lower general and administration and maintenance charges and increased other income resulted in an increase year-over-year from \$17.7 million for the twelve months ended December 31, 2012. Dividends paid and declared on Class A Ordinary Shares were \$0.66 per share. The Class A Ordinary Shares (CUC.U) traded on the Toronto Stock Exchange at a high of \$11.80 per share in 2013.

Rate of Exchange

The closing rate of exchange as of December 31, 2013 as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was Cdn\$1.0636 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, 2013 for the conversion of Cayman Islands dollars into Canadian dollars was Cdn\$1.2763 per CI\$1.00 (December 31, 2012: Cdn\$1.194).

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.



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 2013 Annual Report are stated in United States dollars unless otherwise indicated.

Fellow Shareholders



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

J.F. Richard Hew
President & Chief Executive Officer

It is our pleasure to report the financial performance and operational progress of Caribbean Utilities Company, Ltd. (“CUC” or “the Company”) for the twelve-month period ended December 31, 2013 (“Fiscal 2013”).

Financial Performance

Net earnings for Fiscal 2013 were \$20.4 million, a \$2.7 million increase from net earnings of \$17.7 million for the twelve months ended December 31, 2012 (“Fiscal 2012”). This increase is due to a 1% increase in kilowatt-hour (“kWh”) sales, 0.7% and 1.8% base rate increases effective June 1, 2012 and June 1, 2013 respectively,

lower general and administration and maintenance costs and increased other income. These items were partially offset by higher depreciation costs for Fiscal 2013, when compared to Fiscal 2012.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Fiscal 2013 were \$19.5 million, or \$0.68 per Class A Ordinary Share as compared to \$16.8 million, or \$0.58 per Class A Ordinary Share for Fiscal 2012.

Kilowatt-hour sales for Fiscal 2013 were 555.7 million kWh, an increase of 7.9 million kWh or 1% when compared to 547.8 million for Fiscal

2012. Sales were positively impacted by a 1% growth in customer numbers and warmer weather conditions that affected customer air conditioning usage. The average monthly temperature for 2013 was 82.2 degrees Fahrenheit compared to 81.9 degrees for 2012.

Electricity sales revenue increased \$2.0 million, in the year ended December 31, 2013 to \$71.1 million when compared to electricity sales revenues of \$69.1 million for Fiscal 2012.

The Company’s average price per Imperial Gallon (“IG”) of fuel for Fiscal 2013 decreased to \$4.74 from \$4.79 for Fiscal 2012. CUC

passes through 100% of its fuel and lubricating costs to consumers on a two-month lag basis without mark-up.

Grand Cayman (“the Island”) is not alone in having to face the high cost of fuel. It is also negatively impacting small islands’ systems across the Caribbean, the Pacific and the Mediterranean that rely mainly on diesel fuel. While the cost of fuel was reasonably stable in 2013, it remained high. As a result, customers continue to practice conservation in their energy usage.

Safety and the Environment

Safety of employees and the public remained a top priority in 2013. The Company continued to improve its work methods and practices through training. There was the revision of the Health and Safety Manual and a Safety Time Out session was held in November to chart the safety course for the Company.

Given the inherent hazards associated with this line of work, employee, contractor, and public safety is critical. Public promotions highlighting the protection of our employees and contractors while they are working on the roads, 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”) continues to meet the International Organization for Standardization

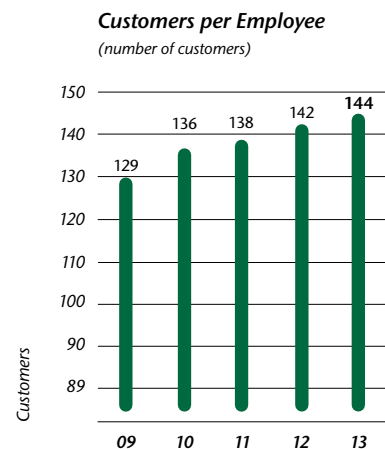
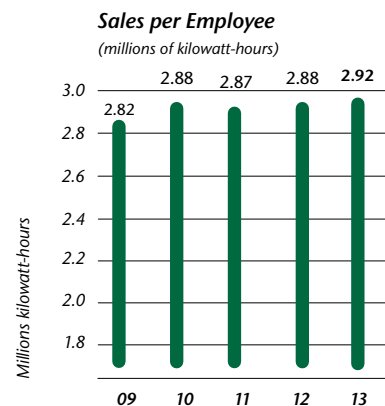
(“ISO”) 14001:2004 requirements, the standard under which it is certified. Significant Environmental Aspects, which are the focus of the programme, include air emissions, waste management, petroleum management, process water management, hazardous materials and chemicals, and noise emissions. In June 2013, a certification audit conducted by an independent party confirmed that the Company’s EMS met the ISO 14001 standard. The Company continues its commitment to working with government bodies and authorities to ensure the protection of our environment. The Company also recognises the importance of keeping its staff informed of important proposed environmental legislation that may affect them.

In 2013, the Company continued the process of aligning its Health and Safety Management System with the Occupational Health and Safety Advisory Services (OHSAS) 18001:2007 health and safety standard. It is intended to combine both the health and safety and the environmental management systems to form an integrated system in order to improve the efficiency in the administration of these two critical management systems.

The Company’s focus on Safety was clearly demonstrated by the Facilities Maintenance and Mechanical Maintenance Departments. These groups were the winners of the Orange Ribbon Safety Awards in 2013.

To qualify for this award, a department must have reduced work-related injuries, vehicle accident rates and oil or chemical spills, along with increasing safety awareness for the previous fiscal quarter. The department is also required to have pro-actively carried out worksite observations.

The Orange Ribbon Safety Programme was launched by the Training, Safety and Environment



("TS&E") Department in March 2013. It highlights the Company's commitment to ensuring a safe and healthy environment for its employees, sub-contractors and the public.

Customer Service and Operations

The growth and success of the Cayman Islands have been based in no small part on the reliability of the country's infrastructure. The reliable provision of electricity is an integral component of the country's infrastructure, and has helped to attract international investors to the country in the main industry pillars of finance and tourism, as well as in the real estate, construction, telecommunications and many other industries.

At the end of 2013, CUC had 27,364 customers when compared to 27,035 at the end of 2012. As the Cayman Islands' economy grows and an increasing number of buildings are constructed on Grand Cayman, CUC will ensure that its electricity system has the capacity to meet demand.

Reliability of CUC's electricity service is critical to the continuing growth of the Island and the Company remains committed to meeting the challenges which come with providing a highly reliable service on a small island system such as in Grand Cayman. The CUC system was available 99.96% of the time during 2013.

Capital Projects

Following the installation of the

first 7,000 meters in the ongoing Advanced Metering Infrastructure ("AMI") project, further installation was delayed to allow for manufacturer software and hardware upgrades.

The Company resumed the roll out of the meters during the Fourth Quarter of 2013. AMI will bring efficiencies in meter reading and services such as disconnects and reconnects directly from CUC's offices, provide real-time electricity consumption information and a 'pay as you go' payment option to aid consumers in monitoring and controlling their electricity consumption. The project should be substantially completed by the end of 2014.

Adopting new technologies and developing technical skills of employees are key initiatives to reducing costs, improving the company's financial results and providing first class service to customers. As part of its future long-term planning, CUC is committed to bringing new technologies to the business which will increase efficiencies.

Competitive Bid Process

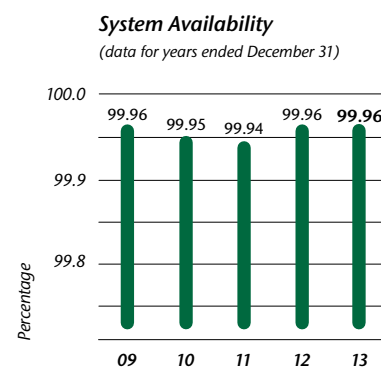
In July 2013, the ERA announced its decision to cancel the solicitation process for firm generating capacity, which had been initiated by a Certificate of Need ("CON") issued by the Company in November 2011. This CON was driven primarily by the upcoming retirement of some of the Company's generating units due to begin in 2014.

In October 2013, the Company and the ERA agreed to a temporary generation plan in order to meet the reserve margin requirements for the summer of 2014 and until those firm capacity needs can be met.

A new CON for generation capacity was issued to the ERA by the Company in October 2013. This October 2013 CON listed a requirement of 36 MW of generating capacity, with 18 MW to be operational no later than April 2016 and the remaining 18 MW to be operational no later than May 2016.

The ERA issued a solicitation for Statements of Qualifications from prospective bidders in November 2013. The ERA has since announced the listing of qualified bidders and issued a request for proposals.

In December 2013, the ERA approved the Company's 2014 to 2018 Capital Investment Plan ("CIP") in the amount of \$143 million for non-generation expansion costs. During this period of continued low growth, CIP initiatives focus on improving reliability of service and operational efficiencies.



Alternative Energy

CUC remains focused on the fuel efficiency of its generators to ensure that the Company maximizes the amount of electricity it delivers to consumers from each gallon of fuel it burns. The Company continues to seek new ways to reduce the reliance on diesel to generate electricity.

The Company has for the last several years been evaluating alternative forms of generation, and had found that, while technically feasible, all renewable energy systems were not cost effective compared to diesel generation in Grand Cayman. As a result of rising oil prices and

the significant lowering of costs for renewable energy equipment, this has now changed. It is now possible for renewable energy from wind and solar photovoltaic sources to be cost competitive with diesel generation and the time is right to introduce these systems onto the Grand Cayman grid.

To this end, during 2013, two companies were chosen to provide solar and wind energy to the CUC grid. New Generation Power (“NGP”) has proposed to provide 3 megawatts (“MW”) of wind generation and 5 MW of solar generation, while International Electric Power LLC

(“IEP”) has proposed to provide an additional 5 MW of solar power. The companies will finance, construct, own and operate renewable energy generation facilities. CUC will accept 13 MW from these projects. Another 2 MW is expected be provided by the Consumer Owned Renewable Energy (“CORE”) programme. The revised programme which was approved by the Electricity Regulatory Authority (“ERA”) in 2012 provides incentives for customers to offer alternative energy sources.

At the end of 2013, 27 customers were connected for 234 kilowatts (“kW”) connected capacity and 15



A focus on community involvement has long been a Company hallmark and is evidenced by a myriad of community enhancement projects which it supports. In February 2013, members of the Line Operations Department assisted the National Trust of the Cayman Islands with the installation of a replica “lookout house” at the historic Fort George site on the waterfront in the capital George Town. During World War II, the “lookout house” was used by members of the Home Guard to watch for German submarines. The replica “house” has salvaged parts from the original used in the 1940s.

projects of an additional 373 kW are under design or construction. CUC anticipates that it will have 15 MW of renewable generation connected to its grid in 2015.

Training and Human Resources

The Company's continued commitment to improving safety and efficiency was evident in 2013. Over 4,000 man hours were devoted to the training of staff to perform their jobs in a safe and efficient manner. The majority of this training took place within the Company, allowing it to reach the maximum amount of staff while being cost effective. Employees also attended numerous conferences and workshops in order to keep abreast of current industry best practices and technology.

Throughout 2013, the Company remained committed to retaining its 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 advance within the organisation. This commitment and training resulted in the promotion of 23 employees to positions of increased responsibility. In addition, the Company hired 14 new employees in roles ranging from Systems Operations Helper to Senior Transmission & Distribution Engineer.

CUC's summer programme forms part of the Company's continued commitment to the development of the young people of the Cayman Islands. As such, the Company facilitated 27 students, ranging from high school to university level, during

the summer of 2013. The students received hands-on training under the guidance of professionals within their assigned fields. In addition to the technical training they received, students also had the opportunity to participate in lunch and learn sessions where they obtained knowledge in areas such as resume writing and workplace etiquette.

The Company's scholarship programme, which was established in 1989, has awarded full and partial scholarships to over 30 current and past employees in the field of mechanical and electrical engineering, information technology, system operations, environmental management and financial services. Over the years, three of the Company's four executive officers and two of its 14 managers received scholarships from the Company.

Given that there is a global shortage of engineers and technicians, the Company has taken a strategic decision to position itself to secure well-qualified persons in the areas of Mechanical and Electrical Engineering.

In 2013, a former employee, two summer students and three current employees were awarded CUC scholarships to study Mechanical and Electrical Engineering.

Regional best performance was recognised when the Company received two of the top awards at the Caribbean Electric Utility Services Corporation ("CARILEC") 2012 Benchmarking Awards in August 2013.

The award for Best Performance

in Transmission and Distribution Services was given based on the Company's leading performance in efficiency, productivity, reliability and cost effectiveness. The second award was for Best in Performance in Commercialization Services and was based on customer service quality, cost effectiveness and productivity. Participants were evaluated for these awards based on their performances in the 2012 Traditional Benchmark Study.

Community Involvement

CUC's commitment to the Cayman Islands has always been a long-term one. In addition to the ongoing development of network infrastructure and the Company's employees, a focus on community involvement has long been a Company hallmark and is evidenced by a myriad of community enhancement projects which it supports.

The Company continues to demonstrate its commitment with a level of community involvement that is matched by few other companies operating in the Cayman Islands.

During the year under review, CUC employees volunteered their time and talent to a number of community projects and organisations. These included the CUC Primary Football League, the Cadet Corps, the Cayman Islands Scouts Association, Meals on Wheels, the Junior Achievement programme, the Cayman Islands Athletic Association, the Positive Intervention Now (PIN) programme, the Sunrise Adult Training Centre

and the Lighthouse School, among others. At the end of 2013, employees had volunteered over 1,550 hours as part of the Company's Community Involvement programme.

Summary

The year under review has been one of challenge as well as of opportunity. Overall, the Company yielded positive results in sales, earnings and other developments with the announcement of the companies which were selected to develop large-scale renewable energy projects, and the start of the competitive solicitation process for firm generation. Large-scale renewables combined with the replacement of older diesel generators by more efficient and firm generation will bring price and reliability benefits to consumers. The resumption of the AMI project signals progress and will also provide significant benefits to our customers and to the Company.

The United Kingdom's approval of a long-term budget for the Cayman Islands Government augurs well for the local economy, as does the new Health City Cayman Islands facility, The WaterColours development and the new Kimpton Hotel to be constructed in the near future.

The 2013 Semi-Annual Economic Report which was released by the Government in late October 2013, reported that the Cayman Islands' real Gross Domestic Product (GDP) grew by an estimated annualised rate of 0.9% for the first half of 2013. GDP

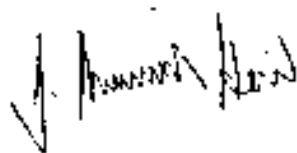
growth for 2013 has been forecasted at 1.5%. The Company maintains a positive outlook for an improved economy in the future.

Customers continue to conserve energy and CUC remains focused on controlling its costs. At the same time, the Company has been making every effort to ensure that its customers are provided with a safe and reliable electricity service and that it provides good value to its shareholders.

We thank our Board of Directors for its guidance and support over the past year and we also thank our employees who have remained dedicated, loyal and committed to our mission which is, "To be a leader in the growth of our community by delivering a safe and reliable service at competitive costs with respect for 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 18, 2014

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, 2013 ("Fiscal 2013"). 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 2013 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 materialise, 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 2013 was 7.6% (2012: 6.9%). CUC's RORB for 2013 was targeted in the 6.50% to 8.50% range (2012: 7.25% to 9.25%). CUC's RORB for 2014 is targeted in the 7.00% to 9.00% range.

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 2013, following review and approval by the Electricity Regulatory Authority ("ERA"), the

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, 2013	Twelve months ended December 31, 2012	Change	Change %
Electricity sales	71,131	69,111	2,020	3%
Fuel factor revenues	155,089	154,438	651	0%
Operating revenues	226,220	223,549	2,671	1%
Fuel and lube costs	155,089	154,438	651	0%
Other operating expenses	45,991	46,494	(503)	(1%)
Total operating expenses	201,080	200,932	148	0%
Earnings for the period	20,422	17,691	2,731	15%
Basic earnings per Class A Ordinary Share	0.68	0.58	0.10	17%
Dividends paid per Class A Ordinary Share	0.660	0.660	-	0%
Cash flow from operating activities	49,940	33,833	16,107	48%
Peak load gross (MW)	97.4	95.9	1.5	2%
Net generation (millions kWh)	595.6	587.1	8.5	1%
Kilowatt-hour sales (millions kWh)	555.7	547.8	7.9	1%
Total customers	27,364	27,035	329	1%
System availability	99.96	99.96	0	0%
Customers per employee (#)	144	142	2	1%
Sales per employee (millions kWh)	2.92	2.88	0.04	1%

Company increased its base rates by 1.8% as a result of the 2012 RORB and the increase in the applicable United States and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2012. All fuel and lubricating oil costs are passed through to customers without mark-up as a per kWh charge.

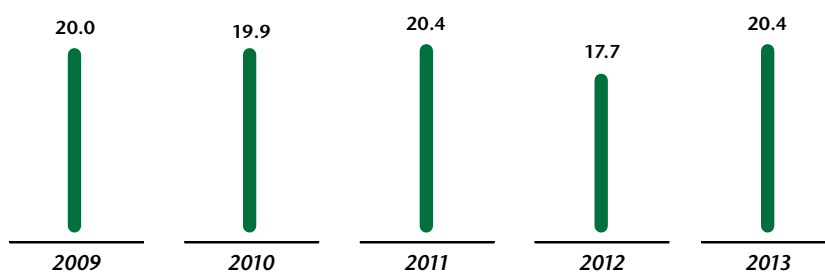
Rate base is the value of capital upon which the Company is permitted an opportunity to earn a return. The value of this capital is the average of the beginning and ending values for the applicable financial year of: fixed assets less accumulated depreciation, plus the allowance for working capital,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

The ERA has the overall responsibility for 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"). \$143.0 million of

Earnings

(\$ millions)



proposed non-generation installation expenditures in the 2014 to 2018 CIP were approved by the ERA. The remaining \$74.0 million of the CIP relates to new generation installation, which is subject to a competitive bid process and would only be incurred if CUC were the successful bidder.

CUC's installed generating capacity on December 31, 2013 was 149.5 megawatts ("MW"). The Company is reliant on diesel generation units and related equipment with long useful lives to meet customer demand. Accordingly, to ensure the continued performance of the physical assets and reliable customer service, the Company determines expenditures

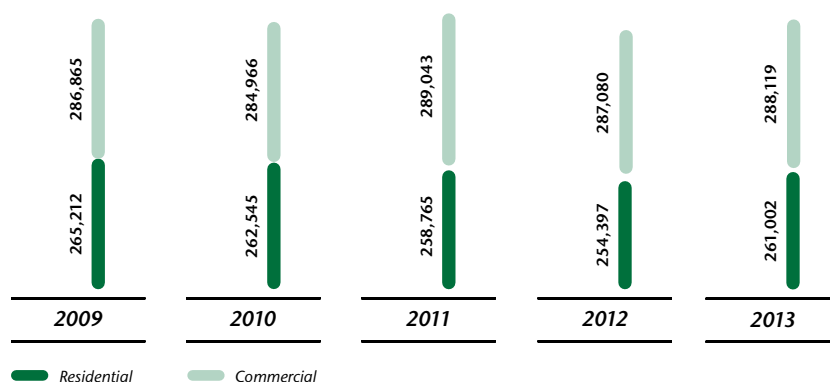
that must be made to maintain and replace the assets in accordance with manufacturer's specifications as well as industry standards.

The Company bases its generation expansion planning primarily on historical growth trends and planned major commercial developments. Furthermore, limits prescribed under its exclusive T&D Licence dictate reserve generating capacity, consisting of a minimum of 35% and maximum of 55% of projected demand, that the Company must maintain to ensure a reliable supply of electricity after allowance for breakdowns and scheduled maintenance. Under the T&D Licence, CUC must submit a Certificate of Need ("CON") to the ERA documenting the size and timing of future generation requirements for firm capacity, which shall be subject to competitive solicitation. The CON shall take into account projected growth in electric peak load, availability of existing capacity, including retirement of existing generation units, projected reserve requirements and safety and environmental requirements.

A CON for generation capacity was issued to the ERA by the Company in November 2011, driven primarily by

Residential and Commercial Sales

(Sales in thousands kWh)



the upcoming retirements of some of the Company's generating units due to begin in 2014.

In March 2012, the ERA solicited Request for Proposals ("RFP") for an additional 36 MW of generation capacity from qualified bidders, including CUC. In February 2013, the Company was advised that another local company had won the bid.

In April 2013, the ERA announced that it would engage an independent party to conduct an investigation into the 36 MW bid process following public statements being made by its former managing director concerning alleged irregularities with the process. In July 2013, the ERA announced that, in its view, as a result of unavoidable and unforeseen delays, the timetable and various milestones provided for in the solicitation could not be achieved and that it had taken the decision to cancel the solicitation process.

In October 2013, the Company issued a new CON for generation capacity. The CON listed a requirement of 36 MW of generating capacity, with 18 MW to be operational no later than April 2016 and the remaining 18 MW to be operational no later than May 2016.

The ERA issued a solicitation for Statements of Qualifications from prospective bidders in November 2013. On January 30, 2014, the ERA announced the parties selected as qualified bidders and released the request for proposal document to all qualified bidders. The bid deadline is listed as April 14, 2014 with a decision from the ERA on the Top Ranked bidder expected to be published on June 10, 2014.

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,

Sales and Customer Highlights

	Twelve months ended December 31, 2013	Twelve months ended December 31, 2012	Change %
Customers (number)			
Residential	23,358	23,075	1%
Commercial	4,006	3,960	1%
Total Customers	27,364	27,035	1%
Sales (in thousands kWh)			
Residential	261,002	254,397	3%
Commercial	288,114	287,080	0%
Other	6,596	6,332	4%
Total sales	555,712	547,809	1%
Revenues (in thousands of \$)			
Residential	34,592	33,240	4%
Commercial	36,067	35,420	2%
Other (street light, etc.)	472	451	5%
Fuel factor	155,089	154,438	0%
Total operating revenues	226,220	223,549	1%

Operating Expenses

(\$ thousands)

	Twelve months ended December 31, 2013	Twelve months ended December 31, 2012	Change	Change %
Power generation expenses	158,090	157,677	413	0%
General and administration	8,851	9,635	(784)	(8%)
Consumer service	1,672	1,549	123	8%
Transmission and distribution	2,200	2,406	(206)	(9%)
Depreciation	24,351	22,690	1,661	7%
Maintenance	5,610	6,602	(992)	(15%)
Amortization of intangible assets	306	373	(67)	(18%)
Total operating expenses	201,080	200,932	148	0%

Broadcasting, and all forms of radio. The ICTA sets the standards under which ICT networks must be developed and operated.

Earnings

Net earnings for the twelve months ended December 31, 2013 ("Fiscal 2013") were \$20.4 million, a \$2.7 million increase from net earnings of \$17.7 million for the twelve months ended December 31, 2012 ("Fiscal 2012"). This increase is attributable to a 1% increase in kWh sales, 0.7% and 1.8% base rate increases effective June 1, 2012 and June 1, 2013 respectively, lower general and administration and maintenance charges and increased other income. These items were partially offset by higher depreciation costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Fiscal 2013 were \$19.5 million, or \$0.68 per Class A Ordinary Share as compared to \$16.8 million, or \$0.58 per Class A Ordinary Share for Fiscal 2012. 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 28,891,552 and 28,698,657 for the years ended December 31, 2013 and December 31, 2012, respectively.

Sales

Kilowatt-hour sales for the Fiscal 2013 were 555.7 million kWh, an increase of 7.9 million kWh or 1%

when compared to 547.8 million for the year ended December 31, 2012. Sales were positively impacted by a 1% growth in customer numbers and warmer weather conditions that affected customer air conditioning usage. The average temperature for 2013 was 82.2 degrees Fahrenheit compared to 81.9 degrees for 2012.

Sales for 2012 were positively impacted by an additional leap year sales day in February. The Company's kWh sales were 555.7 million kWh for 2013 compared to 546.3 million kWh for 2012 when the impact of the additional day in 2012 is excluded.

Total customers as at December 31, 2013 were 27,364, an increase of 1% compared to 27,035 customers as at December 31, 2012.

Power Generation Expenses

(\$ thousands)

	Twelve months ended December 31, 2013	Twelve months ended December 31, 2012	Change	Change %
Fuel costs (net of deferred fuel charges)	152,648	151,525	1,123	1%
Lube costs (net of deferred lubricating oil charges)	2,441	2,913	(472)	(16%)
Other generation expenses	3,001	3,239	(238)	(7%)
Total power generation expenses	158,090	157,677	413	0%

Operating Revenues

Operating revenues increased 1%, or \$2.7 million, to \$226.2 million for Fiscal 2013 from \$223.5 million for Fiscal 2012. This increase was the result of higher electricity sales revenues and higher fuel factor revenues.

Electricity sales revenue increased \$2.0 million, in the year ended December 31, 2013 to \$71.1 million when compared to electricity sales revenues of \$69.1 million for the year ended December 31, 2012. This increase is attributable to a 1% increase in kWh sales and the 0.7% and 1.8% base rate increases effective June 1, 2012 and June 1, 2013 respectively.

Fuel factor revenues for Fiscal 2013 totalled \$155.1 million, a \$0.7 million increase from the \$154.4 million in fuel factor revenues for Fiscal 2012.

Fuel factor revenues increased due to an increase in kWh sales (see "Power Generation" section for further details). The average Fuel Cost Charge rate per kWh charged to consumers for Fiscal 2013 was \$0.27 comparable to the Fuel Cost Charge rate per kWh for Fiscal 2012.

Operating Expenses

Total operating expenses for Fiscal 2013 increased \$0.2 million to \$201.1 million from \$200.9 million for Fiscal 2012. The main contributing factors to the increase in operating expenses were higher depreciation, consumer service and power generation expenses, partially offset by lower maintenance, general and administration and transmission and distribution expenses.

Power Generation

Power generation costs for Fiscal 2013 increased \$0.4 million to \$158.1 million when compared to \$157.7 million for Fiscal 2012. The increase is due to a 1% increase in net generation.

The Company's average price per imperial gallon ("IG") of fuel for the year ended December 31, 2013 decreased to \$4.74 from \$4.79 for the year ended December 31, 2012. The Company's average price per IG of lubricating oil for the year ended December 31, 2013 decreased to \$12.65 from \$14.10 for the year ended December 31, 2012.

The Fuel Tracker Account (see Note 5 of the Notes to Annual Consolidated Financial Statements) is comprised of total diesel fuel and lubricating oil costs to be recovered from consumers.



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

Other Income and Expenses

(\$ thousands)

	Twelve months ended December 31, 2013	Twelve months ended December 31, 2012	Change	Change %
Total interest costs	(12,228)	(12,607)	379	(3%)
AFUDC	3,210	3,482	(272)	(8%)
Total finance charges	(9,018)	(9,125)	107	(1%)
Foreign exchange gains	1,927	2,165	(238)	(11%)
Other income	2,373	2,034	339	17%
Total net other expenses	(4,718)	(4,926)	208	(4%)

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. These contracts concluded in May 2013. In December 2013 new contracts were initiated and are effective in January 2014. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

Other generation expenses for the year ended December 31, 2013 totalled \$3.0 million a decrease of \$0.2 million when compared to \$3.2 million for the year ended December 31, 2012. This decrease primarily relates to lower lubricating oil disposal costs in the year ended December 31, 2013 when compared to the year ended December 31, 2012.

General and Administration ("G&A")

G&A expenses for the year ended December 31, 2013 totalled \$8.9

million, a decrease of \$0.7 million, or 8%, from \$9.6 million for the year ended December 31, 2012. This decrease was due mainly to lower expense 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 plan are actuarially determined using the projected benefits method. A defined benefit pension expense of \$0.3 million has been recorded for the year ended December 2013 a decrease of \$0.6 million when compared to \$0.9 million for the year ended December 2012.

The Company capitalises certain overhead costs not directly attributable to specific capital assets but which do relate to the overall capital expenditure programme. GEC totalled \$3.4 million for the year ended December 31, 2013, \$0.3 million higher than \$3.1 million for the year ended December 31, 2012.

Consumer Services ("CS")

CS expenses for Fiscal 2013 totalled \$1.7 million, an increase of \$0.2 million or 8% when compared to \$1.5 million for Fiscal 2012. The increase is attributable to additional resources needed to meet the changing needs of consumers.

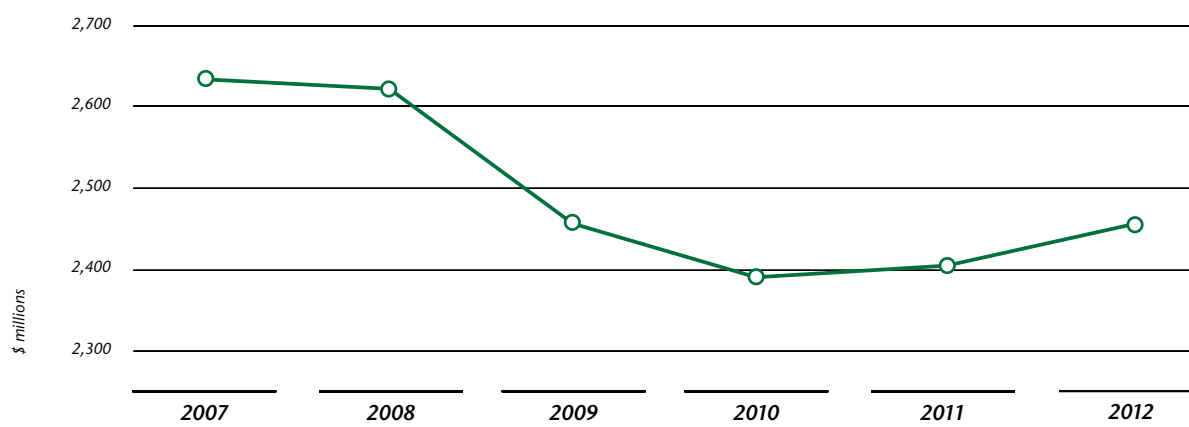
Transmission and Distribution ("T&D")

T&D expenses for Fiscal 2013 totalled \$2.2 million a decrease of \$0.2 million, or 9%, when compared to T&D expenses of \$2.4 million for Fiscal 2012. This decrease was partially due to an increase in capitalised labour as the T&D Division focussed on capital projects during 2013.

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

Depreciation expenses for Fiscal 2013 totalled \$24.4 million, an increase of \$1.7 million, or 7%, from \$22.7 million for Fiscal 2012. This increase in depreciation is related to capital projects completed in prior periods.

Cayman Islands Gross Domestic Product



At constant 2007 prices

Source: Cayman Islands Government, Economics and Statistics Office, 2012 Compendium of Statistics

Maintenance

Maintenance expenses for the year ended December 31, 2013 totalled \$5.6 million, a decrease of \$1.0 million from \$6.6 million for the year ended December 31, 2012.

Maintenance expenses for Fiscal 2013 were expected to be lower than those seen in 2012 due to various capital projects scheduled in 2013. Certain upgrades to generating units are considered capital in nature as the upgrades extend the life or increase the output of the unit.

Amortization

Amortization of intangible assets for Fiscal 2013 totalled \$0.3 million, a decrease of \$0.1 million or 18% when compared to \$0.4 million for Fiscal 2012.

Amortization represents the monthly recognition of the expense associated with software purchases as well as other intangible assets such as the costs associated with the licence negotiations. The negotiations for the Company's licences ended in 2008 and the costs associated with the negotiations are

being amortized over 20 years on a straight-line basis. The negotiations associated with DataLink's ICT licence ceased in 2012 and these costs are being amortized over 15 years on a straight-line basis.

Other Income and Expenses

Finance charges for Fiscal 2013 totalled \$9.0 million, a decrease of \$0.1 million from \$9.1 million for Fiscal 2012. This decrease was driven by a reduction in average debt interest costs which was partially offset by

Key Indicators for the Financial Services Industry

	As at December 2013	As at December 2012	As at December 2011	As at December 2010	As at December 2009
Bank licences	213	222	234	246	266
Mutual funds *	11,379	10,841	9,258	9,438	9,523
Mutual fund administrators	121	124	129	134	141
Captive insurance companies	788	768	739	738	780

* 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, 2013 there were 2,635 registered Master Mutual Funds (2012: 1,891) and nil as at December 31, 2011 and prior periods.

lower Allowance for Funds Used during Construction ("AFUDC") in Fiscal 2013.

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 2013 was 7.50% as agreed with the ERA, in accordance with the T&D Licence, and is reviewed annually. The cost of capital rate for 2012 was 8.25%.

The AFUDC amount for Fiscal 2013 totalled \$3.2 million, a \$0.3 million decrease when compared to \$3.5 million for Fiscal 2012. This decrease was attributable to lower capital expenditure and a lower cost of capital rate.

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 \$1.9 million for Fiscal 2013 a \$0.3 million or 13% decrease when compared to \$2.2 million for Fiscal 2012.

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 \$2.4 million for Fiscal 2013, an increase of \$0.4 million, from \$2.0 million for Fiscal 2012.

In March 2012, the ERA acknowledged the creation of CUC's wholly-owned subsidiary DataLink, Ltd. ("DataLink"). Subsequently the ICTA granted DataLink a licence to provide fibre optic infrastructure in Grand Cayman. Revenues from DataLink for Fiscal 2013 are recorded in Other Income in the amount of \$0.6 million.

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 with third party information and communications technology service providers. The novation and reassignment of existing contracts was completed in 2012.

The Economy

In December 2013, Moody's Investors Service issued a credit analysis of the Cayman Islands, rating the country overall at Aa3. The Cayman Islands have retained the Aa3 rating, and its accompanying stable outlook, continuously since

Tourist Arrivals to the Cayman Islands

(for the twelve months ending December 31)

	2013	2012	2011	2010	2009
By air	345,387	321,650	309,091	288,272	271,958
By sea	1,375,872	1,507,370	1,401,495	1,597,838	1,520,372
Total	1,721,259	1,829,020	1,710,586	1,886,110	1,792,330

Summary of Cash Flows

(\$ thousands)

	Twelve months ended December 31, 2013	Twelve months ended December 31, 2012	Change	Change %
Beginning cash	694	424	270	64%
Cash provided by/(used in):				
Operating activities	49,940	33,833	16,107	48%
Investing activities	(26,484)	(30,061)	3,577	(12%)
Financing activities	(22,935)	(3,502)	(19,433)	555%
Ending cash	1,215	694	521	75%

2000. In this latest report, Moody's acknowledges the country's very high Gross Domestic Product ("GDP") and strong institutions as key factors of support for the rating. The report states Moody's view that a long history of policy consensus and a sensible macroeconomic approach explains the Cayman Islands' high economic development and still low debt burden.

The report also acknowledges that the impact of the global financial meltdown was reflected in the Cayman Islands GDP from 2008 through 2010, with the rise in GDP seen in 2011 and 2012. The report continues on to predict a moderate recovery of the economy in 2013 and 2014. The 2013 Semi-Annual Economic Report was released by the Government in late October 2013 and reported that the Cayman Islands' real GDP grew by an estimated annualised rate of 0.9% for the first half of 2013. GDP growth for 2013 is forecasted at 1.5%.

The Cayman Islands has two main

industries; financial services and tourism. The Moody's credit analysis notes that in relation to the financial industry the Cayman Islands has a well established offshore centre, one of the largest in the world. The report goes on to note that the Cayman Islands is one of the world's largest banking centres in terms of assets. The report states that international scrutiny on tax transparency is likely in the future and asserts that Cayman's authorities have proven adept at satisfying all such requirements and indicates a belief that such compliance will continue.

The other major industry in the Cayman Islands is tourism. The country is expected to see a diversification in the tourism industry with the opening of the Health City Cayman Islands facility in 2014. The facility opened with a 140-bed tertiary care hospital. Developers have indicated that the facility will be expanded in phases for up to fifteen years in length and when completed is expected to include a 2,000 bed

hospital, a medical university and an assisted care living community. It is anticipated that when completed, the facility will span 100 acres with more than 1.5 million square feet of buildings.

The tourist demographic is largely comprised of visitors from the United States ("US"). For 2013, 77% of air arrivals were citizens of the US. As such the US economy largely impacts that of the Cayman Islands. 2013 air arrivals were up 7% when compared to 2012 and cruise arrivals decreased by 9% when compared to 2012. 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 Monetary Authority, Cayman Islands Department of Tourism and the Health City websites: www.gov.ky; www.eso.ky; www.cimoney.com.ky; www.caymanislands.ky and www.healthcitycaymanislands.com).

Contractual Obligations

(\$ millions)

	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	219.0	17.0	28.0	27.7	146.3
Defined benefit pension	0.1	0.1	-	-	-
Total	219.1	17.1	28.0	27.7	146.3

Capital Structure

	December 31, 2013 (\$ millions)	%	December 31, 2012 (\$ millions)	%
Total debt	219.0	55	219.5	56
Shareholder's equity	178.3	45	173.9	44
Total	397.3	100	393.4	100

Liquidity and Capital Resources

The table "Summary of Cash Flows" outlines the summary of cash flows for Fiscal 2013 and Fiscal 2012.

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for Fiscal 2013, was \$49.9 million, an increase of \$16.1 million from \$33.8 million for Fiscal 2012. This increase was primarily due to increased earnings and changes in non-cash working capital balances.

Investing Activities:

Cash used in investing activities for Fiscal 2013 totalled \$26.5 million, a decrease of \$3.6 million from \$30.1 for Fiscal 2012. This decrease is due to lower capital expenditures and additional insurance funds received during Fiscal 2013.

Financing Activities:

Cash used in financing activities totalled \$22.9 million for Fiscal 2013, an increase of \$19.4 million from \$3.5 million used in financing activities for Fiscal 2012. During Fiscal 2013, the Company received \$50.0 million in debt financing, repaid \$4.9 million of the overdraft facility and repaid debt of \$50.5 million compared to debt receipts of \$25.0 million, debt payments of \$15.5 million and receipts from the overdraft facility of \$5.1 million during Fiscal 2012.

Transactions with Related Parties

Miscellaneous payables to Fortis Turks & Caicos, also a subsidiary of Fortis Inc., were nil at December 31, 2013 (\$0.001 million as at December 31, 2012). Prior period amounts related to travel expenses and were included within the Related Party Payables on the Balance Sheet. Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totalling \$0.0098 million were outstanding at December 31, 2013 (\$0.05 million as at December 31, 2012) for labour, hurricane preparedness and travel expenses and are included within the Related Party Payables on the Balance Sheet. Miscellaneous receivables from Fortis Inc. were nil at December 31, 2013 (\$0.01 million as at December 31, 2012). Prior period amounts related

to travel expenses and were 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, 2013, 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 generating plant from RUBiS. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2014

Significant Changes in Balance Sheets

(from December 31, 2012 to December 31, 2013)

Balance Sheet Account	Increase/ (Decrease) (\$ millions)	Explanation
Cash and cash equivalents	0.5	Increase due to cash provided by operating activities of \$49.9 million offset by cash used in investing activities of \$26.5 million and cash used in financing activities of \$22.9 million.
Accounts receivable	(1.4)	Decrease due to enhanced collection efforts in the Fourth Quarter of 2013.
Regulatory assets	(1.4)	In accordance with regulatory treatment, the fuel tracker account is classified as a regulatory asset. This amount represents fuel costs incurred by the Company that are recoverable from the customer.
Property, plant and equipment	2.2	Net increase is comprised of capital expenditures of (1) \$29.3 million; (2) depreciation expense of \$24.4 million; (3) insurance funds received of \$2.5 million; (4) \$0.5 million in contributions in aid of construction; and (5) \$0.3 million in accrued capital expenditure.
Bank overdraft	(4.9)	Decrease in bank overdraft.
Accounts payable and accrued expenses	3.1	Change mainly attributable to increase in fuel costs.
Consumers' deposits and advances for construction	0.4	Increase of deposits due to new customer accounts.
Share premium	2.5	The Company issued 253,806 shares through its share purchase plans.

- 11.3. The Company also executed a secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") (previously Esso Cayman Limited) in September 2012 and is committed to purchase approximately 40% of the Company's diesel fuel requirements for its generating plant from Sol. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2014 - 7.6. Both contracts expire July 31, 2014 with the option to renew for two additional eighteen month terms. Renewal cannot occur more than six months in advance of the current contract expiry date. Both contracts qualify for the Normal Purchase Normal Sale exemption under ASC 815 and do not qualify as derivatives.

Financial Position

The table "Significant Changes in Balance Sheets" is a summary of significant changes to the Company's balance sheet from December 31, 2012 to December 31, 2013.

Capital Resources

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

To help ensure access to capital, the Company targets a long-term capital structure containing approximately 45% equity, including preference shares, and 55% debt. The Company's objective is to maintain investment-grade credit ratings. The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the Class A Ordinary Share rights offering that occurred in 2008 and the Company's

Share Purchase Plans.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 60% of the Company's consolidated capital structure, as defined by short-term and long term debt agreements. As at December 31, 2013, the Company was in compliance with all debt covenants.

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

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

The S&P rating is in relation to

long-term corporate credit and unsecured debt while the DBRS rating relates to senior unsecured debt.

Following Fortis Inc.'s December 2013 announcement of a proposed \$4.3 billion acquisition of UNS Energy Corporation, an Arizona-based holding company that wholly owns Tucson Electric Power Company ("TEP"), S&P affirmed the Company's A- rating and revised its outlook on the Company from Stable to Negative.

The negative outlook on CUC reflects the application of S&P's group rating methodology and an expectation that Fortis Inc.'s credit metrics would materially weaken due to convertible debentures used to finance the acquisition. The S&P

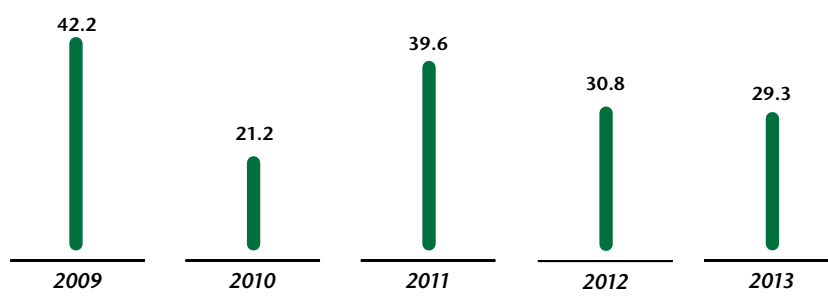
Capital Expenditures

(\$ millions)

	Twelve months ended December 31, 2013	Twelve months ended December 31, 2012	Change	Change %
Transmission	0.0	0.1	(0.1)	(100%)
Distribution	13.2	15.6	(2.4)	(15%)
Generation	14.9	13.9	1.0	7%
Other	1.2	1.2	0.0	0%
Total	29.3	30.8	(1.5)	(4.9%)

Capital Expenditures

(\$ millions)



The above amounts are inclusive of accruals

report also indicates their belief that there are insufficient ring-fencing mechanisms between Fortis Inc. and its subsidiaries, including CUC, to allow for further rating separation.

The A- rating reflects S&P's positive view of the Company's current position as the sole provider of generation services, and the Company's 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.

In February 2014, 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 the demand for electricity. Impacting the rating were such factors as hurricane event risk and the small size of customer base.

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, \$44.7 million was available at December 31, 2013.

Capital Expenditures

Capital expenditures for Fiscal 2013 were \$29.3 million, a \$1.5 million, or 5% decrease from \$30.8 million in capital expenditures for the same period of the previous year. The capital expenditures for Fiscal 2013 primarily relate to:

- » Distribution system extension and upgrades - \$12.7 million.
- » Generation upgrades - \$9.6 million.
- » Facility and auxiliary asset replacement cost - \$1.23 million.
- » Security system upgrade - \$0.56 million.
- » Purchase of AMI meters and meter equipment - \$1.3 million.
- » AFUDC of \$3.2 million was capitalised in Fiscal 2013.

Off Balance-Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at December 31, 2013.

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 electricity 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 control programmes 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 programme 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 increased rates. However, there is no assurance that the ERA will approve any such application (see "Regulation" for discussion of regulatory risk).

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

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 that effect 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.

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, noise, land use activities, and the handling, storage, processing, use, and disposal of materials and waste products.

CUC's Environmental Management System ("EMS") is registered to the ISO 14001 Environmental Standard. The Company was initially registered in 2004 when a third party audited our EMS to ensure that we were meeting requirements put in place by the Government as well as self-imposed requirements.



Photo by The Cayman Reporter

The first phase of the Health City Cayman Islands facility opened in February 2014. The developer plans for the 140-bed tertiary care hospital to be expanded in phases for up to fifteen years. When completed the facility is expected to include a 2,000 bed hospital, a medical university and an assisted care living community. It is anticipated that on completion, the facility will span 100 acres with more than 1.5 million square feet of buildings.

Under the ISO 14001 standard companies are required to establish, document, implement, maintain and continually improve their environmental performance with an aim of prevention of pollution. In order to maintain our registration to this standard an external surveillance audit is conducted annually, and then an external audit is conducted every three years for re-certification. Internal audits of the system must also be conducted on an annual basis. CUC recently conducted, and passed its re-certification audit in June 2013.

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

Through the EMS, CUC has determined that its exposure to environmental risks is not significant

and does not have an impact on CUC's financial reporting including the recording of any Asset Retirement Obligations ("ARO's").

Insurance - Terms and Coverage

The Company renewed its insurance policy as at July 1, 2013 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include \$100.0 million in property and machinery breakdown insurance and business interruption insurance per annum with a 24-month indemnity period and a waiting period on Non-Named Wind, Quake and Flood of 60-days. Any named Wind, Quake and Flood deductible has a 45-day waiting period. All T&D assets outside of 1,000 feet from the boundaries of the main Power Plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$1.0 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1.0 million and maximum deductible of \$4.0 million for all interests combined.

In accordance with the T&D Licence when an asset is impaired or disposed of, within 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 2014, is 5%. This compares to assumed long-term rates of return of 5% used during 2013. The gain on pension plan assets during 2013 was 7% (2012: gain of 9%).

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 2014 is 4.9% compared to the discount rate assumed during 2013 of 3.7%.

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

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

Changes in Accounting Policies

Continued Reporting in Accordance with US GAAP:

In January 2014 the Ontario Securities Commission ("OSC")

issued a relief order which permits the Company to continue to prepare its financial statements in accordance with US GAAP, until the earliest of: (i) January 1, 2019; (ii) the first day of the financial year that commences after the Company ceases to have activities subject to rate regulation; or (iii) the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within International Financial Reporting Standards ("IFRS") specific to entities with activities subject to rate regulation. The OSC relief order effectively replaces and extends the OSC's previous relief order, which was due to expire effective January 1, 2015.

If the OSC relief does not continue as detailed above, the Company would then be required to become

a US Securities and Exchange Commission ("SEC") Issuer in order to continue reporting under US GAAP, or adopt IFRS. The IASB has recently released an interim, optional standard on Regulatory Deferral Accounts and continues to work on a project focusing on accounting specific to rate regulated activities. It is not yet known when this project will be completed or whether IFRS will, as a result, include a permanent, mandatory standard to be applied by entities with activities subject to rate regulation. In the absence of a permanent standard for rate regulated activities, the application of IFRS at that time could result in volatility in the Company's earnings and earnings per common share as compared to that which would otherwise be recognised under US GAAP.



Construction continues on the Island's Seven Mile Beach as The WaterColours project takes shape. The Island's first nine-storey condominium complex consists of 60 spacious private residences available in three and four bedroom units. The WaterColours is set for completion in 2014.

Critical Accounting Estimates

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

Revenue Recognition

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, 2013, the amount of unbilled revenue recorded in Accounts Receivable - Trade was \$3.7 million (December 31, 2012: \$3.8 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, 2013, the amount of estimated kWh sales was 25.8 million kWh (December 31, 2012: 26.6 million kWh). As bills are generated at the beginning of each month it is necessary to accrue for kWh's 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

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, 2013	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011
Operating revenues	226,220	223,549	218,099
Net earnings	20,422	17,691	20,390
Net earnings applicable to common shares	19,492	16,761	19,484
Total assets	435,750	434,972	423,339
Debt	219,000	219,500	210,000
Preference shares	250	250	250
Total shareholders' equity	178,292	173,866	173,255
Earnings per Class A Ordinary Share	0.68	0.58	0.68
Diluted earnings per Class A Ordinary Share	0.68	0.58	0.68
Dividends declared per Class A Ordinary Share	0.660	0.660	0.660
Dividends declared per Class B Preference Shares including bonus	3.72	3.72	3.72

return on plan assets. As at December 31, 2013, the Company had a long-term liability of \$0.3 million (December 31, 2012: \$1.9 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, 2013, the net book value of the Company's PP&E was \$379.3 million compared to \$377.1 million as at December 31, 2012, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for Fiscal 2013 was \$24.4 million and \$22.7 million for Fiscal 2012. Due to the value of the Company's PP&E, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

Selected Annual Financial Information

The table "Selected Annual Financial Information" shows the Annual Financial Information for the financial

years ended December 31, 2013, 2012 and 2011.

2013 Fourth Quarter Results

Net earnings for the three months ended December 31, 2013 ("Fourth Quarter 2013") were \$5.8 million, a \$1.7 million increase when compared to \$4.1 million for the three months ended December 31, 2012 ("Fourth Quarter 2012"). This increase is attributable to a 6% increase in kWh sales, higher other income and lower non-fuel operating expenditure. These items were partially offset by higher finance charges and lower foreign exchange gains for the Fourth Quarter 2013 when compared to the Fourth Quarter 2012.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2013 were \$5.2 million, or \$0.18 per Class A Ordinary Share, as compared to \$3.5 million, or \$0.12 per Class A Ordinary Share for the Fourth Quarter 2012.

Kilowatt-hour sales for the Fourth Quarter 2013 were 140.3 million an increase of 7.9 million kWh when compared to 132.4 million for the Fourth Quarter 2012. Sales were positively impacted by warmer

weather conditions that affected customer air conditioning usage. The average monthly temperature for the Fourth Quarter 2013 was 2.7 degrees Fahrenheit higher than the average monthly temperature experienced during the Fourth Quarter 2012.

Total operating expenses for the Fourth Quarter 2013 decreased 4% or \$1.9 million to \$52.1 million from \$54.0 million for the Fourth Quarter 2012. The main contributing factors to the decrease in operating expenses were lower depreciation, maintenance and power generation expenses, which were comprised predominantly of fuel costs.

Cash flow provided by operations, after working capital adjustments, for the Fourth Quarter 2013, was \$11.4 million, an increase of \$5.6 million when compared to \$5.8 million for the Fourth Quarter 2012. This increase was primarily due to increased earnings and changes in non cash working capital balances. Cash used in investing activities totalled \$7.9 million for the Fourth Quarter 2013, a decrease of \$1.4 million from \$9.3 million for the Fourth Quarter 2012. This decrease is due to lower capital expenditures. Cash used in financing activities totalled \$5.8 million for the Fourth

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, 2013	58,801	5,760	5,169	0.18	0.18
September 30, 2013	59,547	6,048	5,935	0.21	0.21
June 30, 2013	55,346	5,716	5,603	0.19	0.19
March 31, 2013	52,525	2,898	2,785	0.10	0.10
December 31, 2012	59,087	4,061	3,467	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

Quarter 2013, an increase of \$4.5 million from \$1.3 million used in financing activities for the Fourth Quarter 2012. The Company utilised \$1.3 million of the overdraft facility during the Fourth Quarter 2013 compared to utilization of \$6.2 million of the overdraft facility during the Fourth Quarter 2012.

Capital expenditures for the Fourth Quarter 2013 were \$7.5 million, a \$1.7 million, or 18% decrease from \$9.2 million in capital expenditures for the Fourth Quarter 2012.

Quarterly Results

The table "Quarterly Results" summarises unaudited quarterly information for each of the twelve quarters ended March 31, 2012 through December 31, 2013. This information has been obtained from CUC's unaudited interim Financial Statements, which in the opinion of Management have been prepared in accordance with US GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

December 2013/December 2012

Net earnings for the Fourth Quarter 2013 were \$5.8 million, a \$1.7 million increase when compared to \$4.1 million for the Fourth Quarter 2012. This increase is attributable to a 6% increase in kWh sales, higher other income and lower non-fuel operating expenditure. These items were partially offset by higher finance charges and lower foreign exchange gains for the Fourth Quarter 2013 when compared to the Fourth Quarter 2012.

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

Quarter 2013 were \$5.2 million, or \$0.18 per Class A Ordinary Share, as compared to \$3.5 million, or \$0.12 per Class A Ordinary Share for the Fourth Quarter 2012.

September 2013/September 2012

Net earnings for the three months ended September 30, 2013 ("Third Quarter 2013") totalled \$6.0 million, a decrease of \$0.6 million when compared to \$6.6 million for the three months ended September 30, 2012 ("Third Quarter 2012"). This decrease was due primarily to higher depreciation and finance charges, while electricity sales revenues were flat. These items were partially offset by lower general and administration and maintenance costs. Maintenance costs declined as a result of the Company's focus in 2013 on capital-related upgrade projects that improve the efficiency of its generating units.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2013 were \$5.9 million, or \$0.21 per Class A Ordinary Share, a decrease of \$0.6 million from the \$6.5 million, or \$0.22 per Class A Ordinary Share for the Third Quarter 2012.

June 2013/June 2012

Net earnings for the three months ended June 30, 2013 ("Second Quarter 2013") totalled \$5.7 million, an increase of \$0.6 million when compared to \$5.1 million for the three months ended June 30, 2012 ("Second Quarter 2012"). This increase was due primarily to a 3% increase in kWh sales and lower financing costs. Maintenance costs also declined as a result of the focus in the Second Quarter 2013 on capital-related upgrade projects that improve the efficiency of the Company's

generating units. These items were partially offset by higher depreciation costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2013 were \$5.6 million, or \$0.19 per Class A Ordinary Share, an increase of \$0.6 million from the \$5.0 million, or \$0.18 per Class A Ordinary Share for the Second Quarter 2012.

March 2013/March 2012

Net earnings for the three months ended March 31, 2013 ("First Quarter 2013") totalled \$2.9 million, an increase of \$1.0 million, when compared to \$1.9 million for the three months ended March 31, 2012 ("First Quarter 2012"). This increase was due primarily to lower general and administration and financing costs as well as an increase in other income. General and administrative expenses for the First Quarter 2012 included a one-time charge of \$0.3 million related to restructuring costs incurred to further streamline CUC's organisational structure. Maintenance costs also declined as a result of the ongoing capital-related projects that upgrade and improve the performance of the Company's fleet of generating units. These items were partially offset by a 1% decline in kWh sales and higher depreciation costs for the First Quarter 2013 when compared to the First Quarter 2012.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2013 were \$2.8 million, or \$0.10 per Class A Ordinary Share, an increase of \$1.0 million when compared to \$1.8 million, or \$0.06 per Class A Ordinary Share for the First Quarter 2012.

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, 2013; 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, 2013.

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 original 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, 2013.

There has been no change in the Company's ICFR that occurred during the period beginning on October 1, 2013 and ended on December 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

In October 2013, the Company issued a CON for generation capacity driven primarily by the upcoming retirements of some of the Company's generating units due to begin in 2014. The CON listed a requirement of 36 MW of generating capacity, with 18 MW to be operational no later than April 2016 and the remaining 18 MW to be operational no later than May 2016.

The ERA issued a solicitation for Statements of Qualifications from prospective bidders in November 2013. On January 30, 2014, the ERA announced the parties selected as qualified bidders and released the request for proposal document to all qualified bidders. The bid deadline is listed as April 14, 2014 with a decision from the ERA on the Top Ranked bidder expected to be published on June 10, 2014.

In December 2013, the ERA approved the Company's 2014 to 2018 Capital Investment Plan in the amount of \$143.0 million for non-generation installation expenditures. During this period of continued low growth, CIP initiatives focus on improving reliability of service and operational efficiencies.

Outstanding Share Data

At March 18, 2014, the Company had issued and outstanding 29,059,762 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 at www.cuc-cayman.com.



Letitia T. Lawrence
Vice President Finance & Chief Financial Officer

March 18, 2014

Management's Responsibility for Financial Reporting

The accompanying Annual Consolidated Financial Statements of Caribbean Utilities Company, Ltd. and all information in the 2013 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 2013 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.

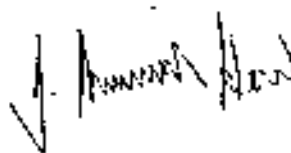
The Audit Committee has the duty to review the adoption of, and changes in, accounting principles and practices which have a material effect on the Annual Consolidated Financial Statements, to review financial reports requiring Board approval prior to submission to securities commissions or other regulatory 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 2013 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, 2013 and 2012 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.

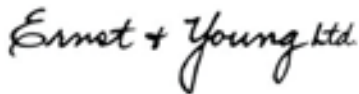
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

The logo for Ernst & Young Ltd. is written in a cursive, handwritten-style font.

Ernst & Young Ltd.
Grand Cayman, Cayman Islands

March 18, 2014

Consolidated Balance Sheets

(Expressed in thousands of United States dollars)

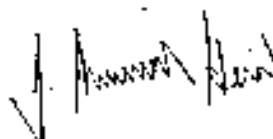
	Note	As at December 31, 2013 \$	As at December 31, 2012 \$
Assets			
<i>Current Assets</i>			
Cash and cash equivalents		1,215	694
Accounts receivable	3	18,645	20,002
Other receivable - Insurance	4	-	123
Regulatory assets	5	24,373	25,795
Inventories	6	5,185	4,380
Prepayments		2,703	2,558
		52,121	53,552
<i>Property, plant and equipment</i>	7	379,329	377,106
<i>Other assets</i>	8	1,509	1,388
<i>Intangible assets</i>	9	2,791	2,926
Total Assets		435,750	434,972
Liabilities and Shareholders' Equity			
<i>Current Liabilities</i>			
Bank overdraft		1,258	6,200
Accounts payable and accrued expenses	10	31,633	28,497
Related party payables	21	10	53
Regulatory liabilities	5	242	345
Short-term debt	11	-	31,000
Current portion of long-term debt	12	17,000	19,500
Consumers' deposits and advances for construction		4,998	4,585
		55,141	90,180
<i>Defined benefit pension liability</i>	19	283	1,926
<i>Long-term debt</i>	12	202,000	169,000
<i>Other long-term liabilities</i>	14	34	-
Total Liabilities		257,458	261,106
<i>Shareholders' Equity</i>			
Share capital	13	1,980	1,965
Share premium		81,023	78,524
Additional paid in capital	14	479	450
Retained earnings		95,064	94,647
Accumulated other comprehensive loss		(254)	(1,720)
Total Shareholders' Equity		178,292	173,866
Total Liabilities and Shareholders' Equity		435,750	434,972

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 Earnings, 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, 2013 \$	Twelve months ended December 31, 2012 \$
Operating Revenues			
Electricity sales		71,131	69,111
Fuel factor		155,089	154,438
Total Operating Revenues		226,220	223,549
Operating Expenses			
Power generation		158,090	157,677
General and administration		8,851	9,635
Consumer services		1,672	1,549
Transmission and distribution		2,200	2,406
Depreciation		24,351	22,690
Maintenance		5,610	6,602
Amortization of intangible assets		306	373
Total Operating Expenses		201,080	200,932
Operating Income		25,140	22,617
Other (Expenses)/Income			
Finance charges	18	(9,018)	(9,125)
Foreign exchange gain	20	1,927	2,165
Other income		2,373	2,034
Total Net Other (Expenses)/Income		(4,718)	(4,926)
Earnings for the Period		20,422	17,691
Preference dividends paid on Class B Shares		(930)	(930)
Earnings on Class A Ordinary Shares		19,492	16,761
Weighted average number of Class A Ordinary Shares issued and fully paid			
	15	28,892	28,699
Earnings per Class A Ordinary Share		0.68	0.58
Diluted Earnings per Class A Ordinary Share		0.68	0.58
Dividends declared per Class A Ordinary Share		0.660	0.660

Consolidated Statements of Comprehensive Income

(Expressed in thousands of United States dollars)

	Twelve months ended December 31, 2013 \$	Twelve months ended December 31, 2012 \$
Earnings for the Period	20,422	17,691
<i>Other comprehensive income/(loss)</i>		
<i>Amounts arising during the period:</i>		
<i>Defined benefit pension plans:</i>		
Net actuarial (loss)/gain	1,085	252
<i>Reclassification to net income:</i>		
Defined benefit pension plans:		
Amortization of prior service costs	248	248
Amortization of net actuarial loss	133	527
Total other comprehensive income	1,466	1,027
Comprehensive Income	21,888	18,718

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, 2013	28,806	1,715	250	78,524	450	(1,720)	94,647	173,866
Net earnings	-	-	-	-	-	-	20,422	20,422
Common share Issuance and stock options plans	254	15	-	2,499	29	-	-	2,543
Defined benefit plans	-	-	-	-	-	1,466	-	1,466
Dividends on common shares	-	-	-	-	-	-	(19,075)	(19,075)
Dividends on preference shares	-	-	-	-	-	-	(930)	(930)
As at December 31, 2013	29,060	1,730	250	81,023	479	(254)	95,064	178,292
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	-	-	-	-	-	-	(18,941)	(18,941)
Dividends on preference shares	-	-	-	-	-	-	(930)	(930)
As at December 31, 2012	28,806	1,715	250	78,524	450	(1,720)	94,647	173,866

Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars)

	Twelve months ended December 31, 2013 \$	Twelve months ended December 31, 2012 \$
Operating Activities		
Earnings for the period	20,422	17,691
Items not affecting cash:		
Depreciation	24,351	22,690
Amortization of intangible assets	306	373
Non-cash pension expenses	-	141
Amortization of deferred financing costs	194	197
Stock-based compensation	28	35
	45,301	41,127
Change in non-cash working capital balances related to operations:		
Accounts receivable	1,357	(4,091)
Other receivable insurance	123	315
Inventories	(805)	(573)
Prepayments	(145)	77
Accounts payable and accrued expenses	3,427	(3,873)
Net change in regulatory deferrals	1,319	29
Other	(637)	822
<i>Cash flow related to operating activities</i>	49,940	33,833
Investing Activities		
Purchase of property, plant and equipment	(29,323)	(30,788)
Costs related to intangible assets	(200)	(372)
Insurance funds received	2,505	1,051
Contribution in aid of construction	498	-
Proceeds on sale of property, plant and equipment	36	48
<i>Cash flow related to investing activities</i>	(26,484)	(30,061)
Financing Activities		
Proceeds from debt financing	50,000	25,000
Repayment of debt	(50,500)	(15,500)
(Decrease)/Increase in bank overdraft	(4,942)	5,141
Dividends paid	(20,005)	(19,872)
Net proceeds from share issues	2,512	1,729
<i>Cash flow related to financing activities</i>	(22,935)	(3,502)
Increase in net cash and cash equivalents	521	270
Cash and cash equivalents - beginning of period	694	424
Cash and cash equivalents - end of period	1,215	694
Supplemental disclosure of cash flow information:		
Interest paid during the period	11,990	12,032

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 Consolidated 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”). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary DataLink, Ltd. (“DataLink”). These decisions affect the timing of the recognition of certain transactions resulting in the recognition of regulatory assets and liabilities, which Caribbean Utilities Company, Ltd., (“CUC” or “the Company”) considers it is probable to recover or settle subsequently through the rate-setting process.

The principal activity of the Company is to generate and distribute electricity in its licence area of Grand Cayman, Cayman Islands, pursuant to a 20-year exclusive Transmission & Distribution (“T&D”) Licence and a 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.

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 2013 of 1.8% as a result of the 2012 Return on Rate Base (“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 2012. 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 computer software assets acquired or constructed by the Company 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 7) and an allowance for General Expenses Capitalised (“GEC”) (Note 7). 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 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.

(Expressed in thousands of United States dollars)

Revenue Recognition

Revenue from the sale of electricity is recognised 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 periodically 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, 2013, cash and cash equivalents consisted of all cash.

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 PP&E 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 provisions made, where damage relates to assets that will be reconstructed.

The Company capitalises GEC, which represents certain overhead costs not directly attributable to specific PP&E but which do relate to the overall capital expenditure programme. Additionally, the Company capitalises an AFUDC, which represents the cost of debt and equity financing incurred during construction of PP&E.

Contributions in aid of construction represents amounts contributed by customers and the Government for the cost of utility capital assets. These contributions are recorded as a reduction in the cost of utility capital assets and are being amortized annually by an amount equal to the charge for depreciation on the related assets.

(Expressed in thousands of United States dollars)

Upon disposition of PP&E, the original cost will be removed from the capital asset accounts, 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, capitalized projects in progress, line inventory and spare parts) 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

PP&E 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.

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 a range of 15 to 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 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 \$14,400 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 (2013: \$0.08 million, 2012: \$0.07 million).

Share Based Compensation Plans

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 C1\$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.

The Company also records the liabilities associated with its Performance Share Unit (“PSU”) Plans at their fair value at each reporting date until settlement, recognising compensation expense over the vesting period. The fair value of the PSU liability is based on the Company's common share closing price at the end of each reporting period relative to the S&P/TSX Utilities Index over a three year period. The fair value of the PSU liability is also based on expected payout based on historical performance in accordance with defined metrics of each grant, where applicable, and management's best estimate.

Employee Benefit Plans

The Company maintains a defined contribution pension plan for its employees and a defined benefit pension plan for the retired Chairman of the Company's Board of Directors as well as the retired President and Chief Executive Officer. 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, and (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 as a separate asset 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 options and call spreads to promote transparency in pricing. The programme utilises call options and call spreads to create a ceiling price for fuel costs at pre-determined contract premiums.

(Expressed in thousands of United States dollars)

The derivatives entered into by the Company relate to regulated operations and all contracts are recognized as either regulatory assets or liabilities and are measured at fair value. Any resulting gains or losses and changes to fair value are 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. Accounts Receivable

Accounts Receivable

(\$ thousands)

	As at December 31, 2013	As at December 31, 2012
Billings to consumers	12,979	14,106
Unbilled revenue	3,661	3,757
Other receivables	2,200	2,314
Related parties	-	9
Allowance for doubtful accounts	(195)	(184)
Total accounts receivable	18,645	20,002

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 Receivables

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 and amounts due from related parties. Other receivables at December 31, 2013 also include billing adjustments for commercial customers.

4. Other Receivable - Insurance

Other Receivable - Insurance

(\$ thousands)

	As at December 31, 2013	As at December 31, 2012
Other insurance claims	-	123
Total	-	123

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 claims process was completed in 2013.

*(Expressed in thousands of United States dollars)***5. Regulatory Assets and Liabilities**

Regulatory Assets and Liabilities			
<i>(\$ thousands)</i>			
Asset/Liability	Description	As at December 31, 2013	As at December 31, 2012
Regulatory assets	Fuel tracker account (a)	22,867	23,694
Regulatory assets	Derivative contract (b)	-	837
Regulatory assets	Miscellaneous regulatory assets (c)	329	384
Regulatory assets	Government and Regulatory Tracker account (d)	1,177	880
Regulatory assets	Total	24,373	25,795
Regulatory liabilities	Miscellaneous regulatory liabilities (e)	(242)	(345)
Regulatory liabilities	Total	(242)	(345)

- (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 account 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.
- (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.
- (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.

*(Expressed in thousands of United States dollars)***6. Inventories**

The composition of inventories is shown as:

Inventories		
<i>(\$ thousands)</i>		
	As at December 31, 2013	As at December 31, 2012
Fuel	4,591	3,643
Lube	499	636
Line spares	79	75
Other	16	26
Total	5,185	4,380

7. Property, Plant and Equipment (“PP&E”)

Property, Plant and Equipment			
<i>(\$ thousands)</i>			
	Cost	Accumulated Depreciation	Net Book Value December 31, 2013
T&D	283,944	95,368	188,576
Generation	291,459	122,883	168,576
Other:			
Land	5,304	-	5,304
Buildings	19,993	10,068	9,925
Equipment, motor vehicles and computers	21,244	14,676	6,568
Total of T&D, Generation and Other	621,944	242,995	378,949
DataLink	380	-	380
Property, plant and equipment	622,324	242,995	379,329
	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 of T&D, Generation and Other	595,740	218,634	377,106
DataLink	-	-	-
Property, plant and equipment	595,740	218,634	377,106

(Expressed in thousands of United States dollars)

Included in PP&E are a number of capital projects in progress with a total cost to date of \$29.8 million (December 31, 2012: \$36.8 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, 2012: \$5.0 million). In addition, line inventory with a cost of \$4.5 million (December 31, 2012: \$5.5 million) is included in T&D. Engine spares with a net book value of \$15.7 million (December 31, 2012: \$15.9 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 2013 is 7.5% (2012: 8.25%) and will be adjusted annually. As a result, during the year ended December 31, 2013, the Company recognised \$3.2 million in AFUDC (2012: \$3.5 million). GEC of \$3.4 million was recognised for the year ended December 31, 2013 (2012: \$3.1 million). 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.

8. Other Assets

Other Assets

(\$ thousands)

	As at December 31, 2013	As at December 31, 2012
Deferred debt issue costs	1,483	1,356
Miscellaneous other assets	26	32
Total	1,509	1,388

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.

*(Expressed in thousands of United States dollars)***9. Intangible Assets****Intangible Assets***(\$ thousands)*

	Cost	Accumulated Amortization	Net Book Value December 31, 2013
Deferred licence renewal costs	1,890	534	1,356
DataLink deferred licence renewal costs	200	23	177
Computer software	4,877	3,819	1,058
Other intangible assets in progress	125	-	125
Trademark costs	75	-	75
Total	7,167	4,376	2,791

	Cost	Accumulated Amortization	Net Book Value December 31, 2012
Deferred licence renewal costs	1,890	439	1,451
DataLink 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

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 licences. Amortization of DataLink's deferred licence renewal costs commenced upon conclusion of licence negotiations in March 2012 and extends over the life of the licence.

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

(\$ thousands)

	2014	2015	2016	2017	2018
Computer software	255	321	339	315	310
Licence renewal costs	108	108	108	108	108
Other	-	10	10	10	10
Total	363	439	457	433	428

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

	As at December 31, 2013
Computer software	4.65 years
Deferred licence renewal costs	15 years
DataLink deferred licence renewal costs	13.3 years
Total weighted-average amortization period	10.65 years

*(Expressed in thousands of United States dollars)***10. Accounts Payable and Accrued Expenses**

Accounts Payable and Accrued Expenses		
<i>(\$ thousands)</i>		
	As at December 31, 2013	As at December 31, 2012
Fuel cost payable	25,478	21,790
Trade accounts payable and accrued expenses	2,246	2,541
Accrued interest	938	891
Dividends payable	592	592
Other accounts payable	2,379	2,683
Total accounts payable	31,633	28,497

Amounts related to the fuel option contracts (see Note 16) of nil at December 31, 2013 (\$0.8 million at December 31, 2012) are included in "Other accounts payable".

11. 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 \$44.7 million at December 31, 2013 (\$8.8 million at December 31, 2012). \$0.0 million of the demand loan facility was utilised as at December 31, 2013 (\$31.0 million at December 31, 2012).

Short-Term Financing			
<i>(\$ thousands)</i>			
Credit Facilities	Total Credit Financing Facilities December 31, 2013	Total Utilised December 31, 2013	Total Available December 31, 2013
Corporate credit card line *	400	400	-
Letters of credit	602	602	-
- 1% per annum			
Operating, revolving line of credit	7,500	1,258	6,242
- Prime plus 0.5% per annum			
Catastrophe standby loan	7,500	-	7,500
- Libor plus 1.5% per annum			
Demand loan facility - interim funding of capital expenditures	31,000	-	31,000
- Libor plus 1.5% per annum			
Total	47,002	2,260	44,742

* 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.

*(Expressed in thousands of United States dollars)***12. Long-Term Debt**

Long-Term Debt	As at December 31, 2013	As at December 31, 2012
<i>(\$ thousands)</i>		
6.47 % Senior Unsecured Loan Notes due 2013	-	2,500
7.64 % Senior Unsecured Loan Notes due 2014	3,000	6,000
6.67 % Senior Unsecured Loan Notes due 2016	9,000	12,000
5.09 % Senior Unsecured Loan Notes due 2018	20,000	24,000
5.96 % Senior Unsecured Loan Notes due 2020	21,000	24,000
5.65 % Senior Unsecured Loan Notes due 2022	36,000	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
3.34% Senior Unsecured Loan Notes due 2028	10,000	-
3.54% Senior Unsecured Loan Notes due 2033	40,000	-
	219,000	188,500
Less: Current portion of long-term debt	(17,000)	(19,500)
	202,000	169,000

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

Year	\$
2014	17,000
2015	14,000
2016	14,000
2017	11,000
2018	16,714
2019 and later	146,286

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

13. 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, 2013	As at December 31, 2012
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

*(Expressed in thousands of United States dollars)***14. Share Based Compensation Plans****Share Options:**

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

The exercise price per share in respect of options is equal to the fair market value of the Class A Ordinary Shares on the date of grant. 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, bear a term of 10 years from the date of grant and are exercisable on a cumulative basis. 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, 2013	Dec. 31, 2013		
	Number of options	Weighted average exercise price per share	Weighted average remaining contractual term (years)	Aggregate intrinsic value (\$ millions)
Outstanding at beginning of period	605,900	11.18	-	-
Granted	-	-	-	-
Exercised	(89,100)	8.83	-	-
Forfeited/cancelled	(5,000)	9.66	-	-
Expired	(178,850)	13.66	-	-
Outstanding at end of period	332,950	10.49	6.46	0.10
Vested, end of period	201,450	11.03	5.25	0.12

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

(Expressed in thousands of United States dollars)

The following table summarizes additional information related to the stock options during 2013 and 2012:

Share Options		
(\$ millions)		
	2013	2012
Stock options expense recognised	0.03	0.03
Stock options exercised:		
Cash received for exercise of options	0.8	0.01
Intrinsic value realised by employees	0.2	0.01

Under the fair value method, the compensation expense was \$0.03 million for the year ended December 31, 2013 (December 31, 2012: \$0.03 million), resulting in a corresponding increase of Additional Paid in Capital.

Share Options		
	Number of Options	Weighted average grant date fair value (\$ millions)
Non-vested options, January 1, 2013	217,300	0.13
Granted	-	-
Vested	77,050	0.32
Cancelled/forfeited	8,750	0.02
Non-vested options, December 31, 2013	131,500	0.02

The unrecognised compensation expense related to non-vested share options for the year ended December 31, 2013 was \$0.01 million (2012: \$0.01 million).

Performance Share Unit (“PSU”) Plan:

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

21,500 PSUs were granted to officers and certain employees. The vesting period of the grant is three years, at which time a cash payment may be made to plan participants after evaluation by the Board of Directors of the achievement of certain payment criteria.

For the year ended December 31, 2013, an expense of \$0.03 million (2012 - nil) was recognised in earnings with respect to the PSU plan.

As at December 31, 2013, the total liability related to outstanding PSUs is \$0.03 million (2012 - nil) and is included in “Other Long Term Liabilities”.

(Expressed in thousands of United States dollars)

15. 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 28,891,552 and 28,698,657 for the year ended December 31, 2013 and December 31, 2012 respectively.

The weighted average of Class A Ordinary Shares used for determining diluted earnings were 28,901,175 and 28,713,842 for the year ended December 31, 2013 and December 31, 2012, respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at December 31, 2013 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, 2013 (\$ thousands)	Weighted average shares Dec. 31, 2013 (\$ thousands)	Earnings per common shares Dec. 31, 2013
Net earnings applicable to common shares	19,492	-	-
Weighted average shares outstanding	-	28,892	-
Basic earnings per common share	-	-	0.68
Effect of potential dilutive securities:			
Stock options	-	10	-
Diluted earnings per common share	19,492	28,902	0.68

	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	16,761	-	-
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	16,761	28,714	0.58

16. 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.

(Expressed in thousands of United States dollars)

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.

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

	Dec. 31, 2013 Carrying value	Dec. 31, 2013 Fair value	Dec. 31, 2012 Carrying value	Dec. 31, 2012 Fair value
Long-term debt, including current portion	219,000	214,110	188,500	214,647
Fuel option contracts *	-	-	837	837

* 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 expired on 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, 2013 Total fair value	Dec. 31, 2013 Level 1 Quoted prices in active markets for identical assets	Dec. 31, 2013 Level 2 Significant other inputs	Dec. 31, 2013 Level 3 Significant unobservable inputs
Long-term debt, including current portion	214,110	-	214,110	-
Fuel option contracts *	-	-	-	-

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

(Expressed in thousands of United States dollars)

17. 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 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 factors 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	2013	2014 - 2015	2016 - 2017	2018 Onward
Accounts payable and accrued expenses	31.6	31.6	-	-	-
Consumer's deposits and advances for Construction	5.0	5.0	-	-	-
Letter of credit	0.5	0.5	-	-	-
Long-term debt	219.0	17.0	28.0	27.7	146.3
Long-term debt interest	87.5	11.5	20.3	17.2	38.5
Total	343.6	65.6	48.3	44.9	184.8

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 amount of short-term borrowing at December 31, 2013 was nil.

(Expressed in thousands of United States dollars)

18. Finance Charges

The composition of finance charges were as follows:

Finance Charges		
(\$ thousands)		
	Year ended December 31, 2013	Year ended December 31, 2012
Interest costs - long-term debt	11,938	11,852
Other interest costs	290	755
AFUDC *	(3,210)	(3,482)
Total	9,018	9,125

* Refer to PP&E (Note 7) with regards to AFUDC methodology

19. Employee Future Benefits

All employees of the Company are members of a defined contribution Cayman Islands Pension Plan established for the exclusive benefit of employees of the Company and which complies with the provisions of the National Pensions Law. As a term of employment, the Company contributes 7.5% of wages or salary in respect of employees who have completed 15 years of continuous service and have attained the age of 55 years and 5% of wages or salary for all other employees. All contributions, income and expenses of the plan are accrued to, and deducted from, the members' accounts. The total expense recorded in respect of employer contributions to the plan for the year ended December 31, 2013 amounted to \$0.87 million (2012: \$0.84 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. In April 2007, the Company established an independent trust and the defined benefit plans were amalgamated at that time. The pension cost of the defined benefit plan is actuarially determined using the projected benefits method. An independent actuary performs a valuation of the obligations under the defined benefit pension plan at least every three years. The latest actuarial valuation of the pension plan for funding purposes was 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.

(Expressed in thousands of United States dollars)

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

Defined Benefit Pension Plan Asset Allocation

(%)	As at December 31, 2013	As at December 31, 2012
Equity assets	50%	46%
Fixed income investments	32%	34%
Money market funds	15%	11%
Cash and cash equivalents	3%	9%
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:

Asset Allocation

<i>December 31, 2013</i>	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	3,026	-	-	3,026
Fixed income investments	-	1,939	-	1,939
Money market funds	-	938	-	938
Cash	194	-	-	194
Total	3,220	2,877	-	6,097

<i>December 31, 2012</i>	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

(Expressed in thousands of United States dollars)

Pension Plan	2013	2012
Projected Benefit Obligation		
Balance beginning of year	7,232	7,125
Interest cost	266	308
Actuarial losses	(1,022)	(115)
Benefit payments	(96)	(87)
Balance end of year	<u>6,380</u>	<u>7,231</u>
Plan Assets		
Fair value, beginning of year	5,305	4,314
Actual return on plan assets	361	369
Employer contributions to plan	527	709
Benefit payments	(96)	(87)
Fair value, end of year	<u>6,097</u>	<u>5,305</u>
Funded Status - deficit	<u>(283)</u>	<u>(1,926)</u>
During the year ended December 31, 2013, \$0.3 million (December 31, 2012: \$0.9 million) was recorded as compensation expense, which comprises the following:		
Interest cost	266	309
Expected return on plan assets	(298)	(232)
Amortization of past service costs	248	248
Amortization of actuarial losses	133	527
	<u>349</u>	<u>852</u>
Significant assumptions used:		
Discount rate during year (%)	3.7	4.3
Discount rate at year end (%)	4.9	3.7
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	5.00

The Accumulated Benefit Obligation ("ABO") as at December 31, 2013 was \$5.7 million (December 31, 2012: \$6.5 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		
<i>(\$ thousands)</i>		
	2013	2012
Assets:		
Other assets	3	8
Liabilities:		
Defined benefit pension liabilities	283	1,926

The following tables provide the components of other comprehensive loss for the years ended December 31, 2013 and 2012:

<i>(\$ thousands)</i>		
	2013	2012
Net gain arising during the period	1,085	252
Amortization or curtailment recognition of prior service cost	248	248
Amortization or settlement recognition of net actuarial gain	133	527
Total changes recognised in other comprehensive income	1,466	1,027

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:

<i>(\$ thousands)</i>		
	2013	2012
Past service credit (cost)	(82)	(331)
Net actuarial gain/(loss)	(172)	(1,389)
Accumulated other comprehensive loss at year end	(254)	(1,720)
Cumulative employer contributions in excess of net periodic benefit cost	(29)	(206)
Net liability amount recognised in statement of financial position	(283)	(1,926)

Net actuarial losses of nil and past service costs of \$0.01 million are expected to be amortized from accumulated other comprehensive loss into net benefit costs in 2014.

During 2014 the Company is expected to make contributions of \$0.01 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
2014	0.09
2015	0.09
2016	0.09
2017	0.09
2018	0.40
2019 to 2023	1.80

20. Foreign Exchange

The closing rate of exchange on December 31, 2013 as reported by the Bank of Canada for the conversion of US dollars into Canadian dollars was Cdn\$1.0636 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, 2013 for conversion of Cayman Islands dollars into Canadian dollars was Cdn\$1.2763 per CI\$1.00 (December 31 2012: Cdn\$1.194).

21. Related Party Transactions

Miscellaneous payables to Fortis Turks & Caicos, also a subsidiary of Fortis Inc., were nil at December 31, 2013 (\$0.001 million as at December 31, 2012). Prior period amounts related to travel expenses and are shown as Related Party Payables on the Balance Sheet. Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totalling \$0.010 million were outstanding at December 31, 2013 (\$0.053 million as at December 31, 2012) for labour, hurricane preparedness and travel expenses and are shown as Related Party Payables on the Balance Sheet. Miscellaneous receivables from Fortis Inc. were nil at December 31, 2013 (\$0.01 million as at December 31, 2012). Prior period amounts related to travel expenses and were included within Accounts Receivable on the Balance Sheet.

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 generating plant from RUBiS. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2014 - 11.3.

The Company also executed a secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") (previously Esso Cayman Limited) in September 2012 and is committed to purchase approximately 40% of the Company's diesel fuel requirements for its generating plant from Sol. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 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. The point of delivery for fuel billing purposes remains at the Company's North Sound Road Power Plant. 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.

The value of CUC's closing stock of fuel at December 31, 2013 was \$4.6 million (December 31, 2012: \$3.6 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.

24. Comparative Figures

Certain comparative figures have been reclassified to conform with current year disclosure.

Ten-Year Summary

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

	2013	2012
Operating revenues	226,220	223,549
Other revenues and adjustments	4,300	4,199
Total revenues	230,520	227,748
Operating expenses	201,080	200,932
Income before interest	29,440	26,816
Finance charges	9,018	9,125
Earnings for the year	20,422	17,691
Capitalisation:		
Class A Ordinary Shares (nominal value)	1,730	1,715
9% Cumulative Participating Class B Preference Shares (nominal value)	250	250
Share Premium	81,023	78,524
Long-term loans	219,000	188,500
Total capitalisation	302,003	268,989
Capital expenditures	29,323	30,788
Earnings per Class A Ordinary Share (\$/Share)	0.68	0.58
Dividends per Class A Ordinary Share (\$/Share)	0.66	0.66
Book value per Class A Ordinary Share (\$/Share)	6.13	6.03
Statistical Record:		
Net kWh generation (millions of kWh)	595.6	587.1
Net kWh sales (millions of kWh)	555.7	547.8
Peak load (MW) gross	97.4	95.9
Plant capacity (MW)	149.54	149.54
Total customers (actual number)	27,364	27,035

Numbers for 2011 to 2013 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

2011	2010	2009	TP 2008	2008	2007	2006	2005
218,099	180,096	158,809	150,348	175,981	158,859	135,677	92,871
4,032	3,108	3,109	2,526	3,016	2,851	8,721	10,041
222,131	183,204	161,918	152,874	178,997	161,711	144,398	102,912
193,082	154,182	134,834	135,122	144,673	133,812	112,328	90,190
29,049	29,022	27,084	17,752	34,324	27,898	32,070	12,722
8,659	9,143	7,071	5,153	10,564	9,444	9,212	8,498
20,390	19,879	20,013	12,599	23,760	18,454	22,858	4,224
1,704	1,694	1,683	1,672	1,513	1,508	1,505	1,490
250	250	250	250	250	250	250	250
78,806	75,355	73,729	72,092	43,216	42,230	41,656	39,022
204,000	178,290	200,159	174,643	184,790	165,540	156,038	141,521
282,793	255,589	275,821	240,657	229,769	209,528	199,449	182,283
39,624	21,433	42,665	27,986	44,617	35,586	33,940	39,788
0.68	0.67	0.67	0.45	0.90	0.70	0.87	0.13
0.66	0.66	0.66	0.495	0.66	0.66	0.66	0.33
6.04	6.07	5.90	5.87	5.41	5.15	5.09	4.82
594.0	593.5	597.40	400.74	578.40	546.07	485.52	393.51
554.00	553.8	558.10	376.60	539.56	510.64	456.04	375.74
99.0	102.1	97.50	93.77	92.71	86.83	79.04	85.03
151.2	151.2	152.60	136.60	136.60	123.50	114.63	114.63
26,636	26,151	25,461	24,518	24,042	22,768	21,115	19,011

Board of Directors



Eddinton M. Powell, JP *

*President and Chief Executive Officer
FortisTCl
Providenciales
Turks & Caicos Islands*

J. Bryan Bothwell, MBE *

*Retired Banking Executive
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*

Peter A. Thomson

*Retired Executive
Caribbean Utilities Company, Ltd.
Grand Cayman*

Lynn R. Young

*President and Chief Executive Officer
Belize Electric Company Ltd.
Belize*

Frank J. Crothers⁺

*Chairman, Island Corporate Hold-
ings Ltd.
Bahamas*

J.F. Richard Hew

*President and Chief Executive Officer
Caribbean Utilities Company, Ltd.
Grand Cayman*

H. Stanley Marshall⁺

*President and Chief Executive Officer
Fortis Inc.
Newfoundland
Canada*

David E. Ritch, OBE, JP *⁺

*Chairman of the Board of Directors
Caribbean Utilities Company, Ltd.*

*Attorney-at-Law
Ritch and Conolly
Grand Cayman*

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

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

Officers



David C. Watler
Vice President Transmission & Distribution

J.F. Richard Hew
President & Chief Executive Officer

Letitia T. Lawrence
Vice President Finance & Chief Financial Officer

Andrew E. Small
Vice President Production

Shareholder and Corporate Information

Shareholders

Registered shareholders as of December 31, 2013 were as follows:

<i>Class of Shares</i>	<i>Shareholders</i>	<i>Shares Held</i>
Class A Ordinary Shares	1,832	29,059,762
9% Class B Preference Shares	127	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, 2013. Approximately 12% 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 Tuesday, May 27, 2014 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 or through the Company's website (www.cuc-cayman.com).

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

CST Trust Company
P.O. Box 700, Station B
Montreal, Quebec, Canada H3B 3K3
North America (toll-free): 1-800-387-0825
Direct: (416) 682-3860
Fax: (888) 249-6189
E-mail: inquiries@canstockta.com
Website: www.canstockta.com
(Acting as principal agent)

Caribbean Utilities Company, Ltd.
Company Secretary
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
(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
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