ASCENDANT
group

Investing in Bermuda

ASCENDANT GROUP LIMITED

ANNUAL REPORT **2013**

ASCENDANT GROUP LIMITED

FINANCIAL HIGHLIGHTS	2013	2012	% CHANGE
Net Earnings	$ 4,888,760	$ 11,531,364	(57.6)
Basic and Fully Diluted Earnings per Share	$ 0.39	$ 1.07	(63.6)
Dividends	$ 8,974,400	$ 8,880,353	1.1
Dividends per Share	$ 0.85	$ 0.85	0.0
Market Price per Share (as at 31 Dec.)	$ 10.25	$ 12.03	(14.8)
Book Value per Share (as at 31 Dec.)	$ 30.62	$ 31.18	(1.8)
Total Assets (as at 31 Dec.)	$ 421,192,963	$ 414,020,567	1.7

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VISION

To be Bermuda's trusted, preferred provider of energy & infrastructure solutions.

TO OUR **SHAREHOLDERS**

Five years ago, a financial crisis plunged the world into global economic recession, and Bermuda was not immune. To paraphrase a local aphorism: "When the world sneezes, Bermuda catches a cold." By 2013, the impact of the world's financial malaise was being felt by the majority of the Island's residents and businesses, including Ascendant Group Limited. As we look toward the next decade, we expect that both the Island and Ascendant Group will recover, but recovery will be slow and accompanied by great change.

Bermuda's economic recession, which has led to a shrinking business community and residential population, as well as declining Gross Domestic Product, has been detrimental to our operating companies' net earnings. What's more, the downward trend of our results has been exacerbated by increased energy conservation affecting the electricity sector, as well as increased competition.

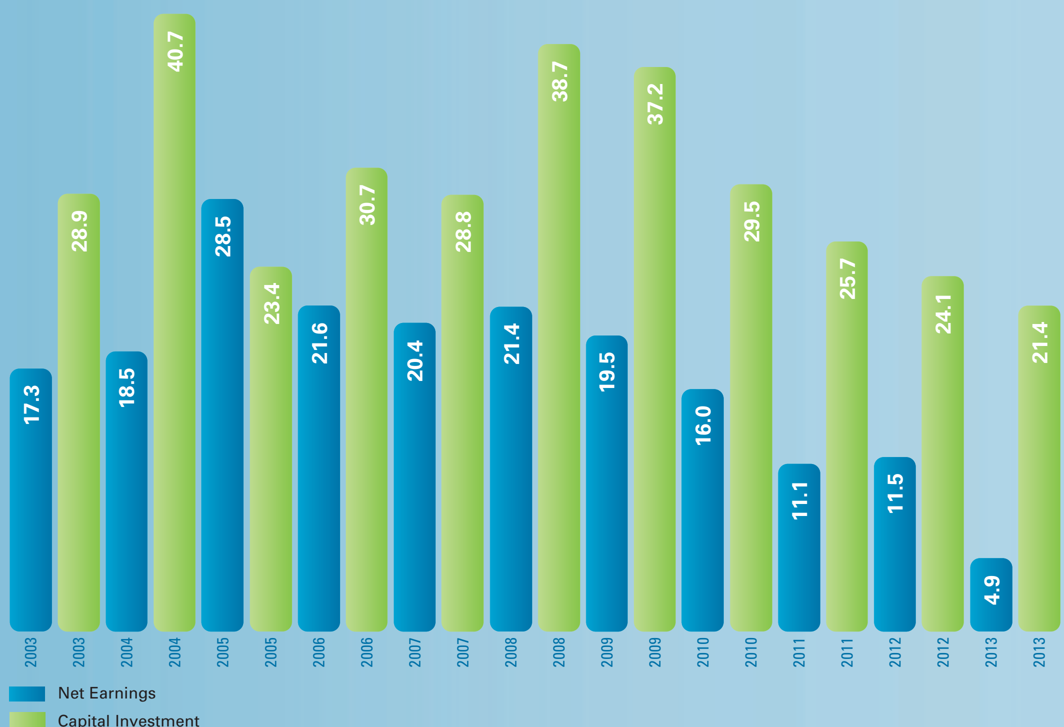
Net earnings have dropped precipitously from the 2005 high of $28.5 million to $11.5 million in 2012 and $4.9 million for the year 2013.

At the same time, the substantial decline in net earnings has resulted in earnings per share falling 63.6% to $0.39 in 2013 versus $1.07 in 2012. The market price of Ascendant Group shares also declined to $10.25 at year-end 2013, down 14.8% from $12.03 at 31 December 2012. Book value declined to $30.62 in 2013, down 1.8% from $31.18 per share at the end of 2012.

Despite the Company's weakened condition, the cash dividend of $0.85 per share remained unchanged in 2013 and for the first quarter of 2014. However, in light of the ongoing economic downturn and the associated challenges for Ascendant Group, the Board of Directors announced in March 2014 that a full review of the Company's dividend policy had commenced.

Net Earnings vs Capital Investment

(Millions of dollars)



The Board is seeking to balance the deployment of capital to support our Company's development with the commitment to deliver a fair return to loyal shareholders.

For the near term, Ascendant Group's capital investment requirements are likely to demand retaining more of the Company's earnings and cash flow. In the long run, however, that sacrifice should pay off in increased value, as we fulfil our commitment to investors by delivering on our mission "to be Bermuda's trusted, preferred provider of energy and infrastructure solutions."

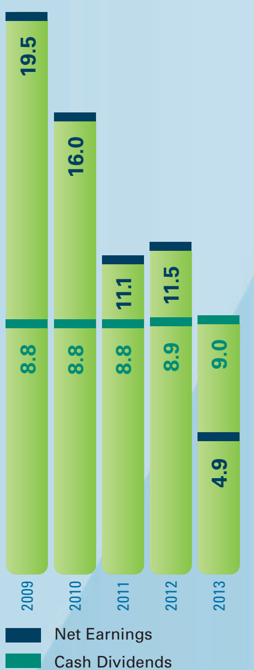
Moving into 2014, we are at a unique crossroads, unprecedented in the Company's history. We are guiding the business through a prolonged recession, while also transforming Ascendant Group into a diversified organisation for the benefit of our shareholders, employees, customers, business partners and the Bermuda community that we serve.

Since 2009, the Island's economic slump has led to annual decreases in electricity sales, due to a diminished residential population and reduced commercial activity, as well as increased energy conservation. The negative economy has also contributed to decreased gas sales at Bermuda Gas & Utility Company Limited, although new competition is also a factor. Our other operating companies have also felt the combined effects of the economic downturn and increased competition. At the same time, our businesses have seen accounts receivable and the related cost of collection increase, with both commercial and residential customers struggling to meet financial commitments.

In addition, Ascendant Group, like other organisations both locally and globally, is grappling with rising pension and healthcare costs. In 2013, the Company incurred a $2.6 million expense associated with Bermuda Electric Light Company Limited's (BELCO's) Defined Benefit (DB) Pension Plan,

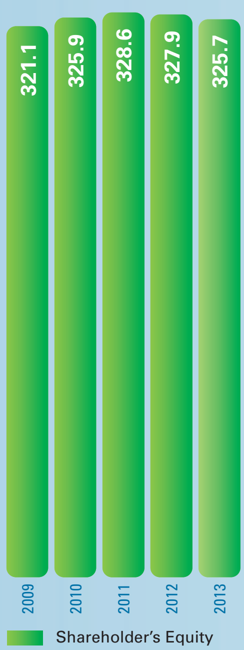
Net Earnings

(Millions of dollars)



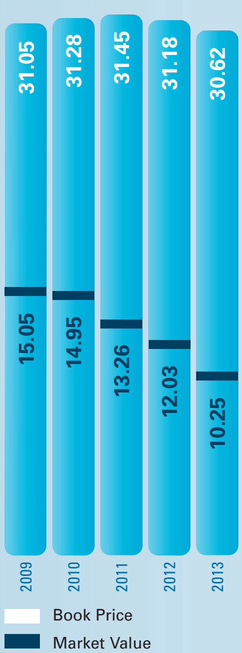
Capitalisation

(Millions of dollars)



Book Value & Market Price of Shares

(Dollar values are per share as at 31 December of each fiscal year)



which was closed to new entrants on 1 January 2006 and frozen at 31 December 2011. The Company is considering options to further reduce its exposure to future volatility from this DB Plan.

The Company also saw healthcare costs rise steeply, by $1.6 million or 9.0%, in 2013 due to greater premiums and obligations associated with retiree healthcare benefits. Management is working with healthcare plan providers to evaluate various alternatives as increases of this magnitude to costs, which are borne by the Company's customers, shareholders and current employees, are unsustainable.

BELCO is experiencing the important cost effects of operating aging generating plant that is either approaching or past its expected, normal retirement age. Therefore, due to the operating regime for oil-fired reciprocating engines, increasing maintenance costs are anticipated as the equipment ages. However, because this equipment is less efficient than newer plant would be, and in order to make the transition to liquefied natural gas (LNG) to help stabilise future energy prices and green energy targets, the Company has made the decision to keep it online and adjust our plant-development plans, taking into account diminishing peak loads.

In 2014, Ascendant Group will put forward a new energy plan aimed at stabilising the cost of energy for the benefit of consumers, while also creating jobs and enabling the Company to demonstrate its diversified capabilities. Ascendant Group has developed an Integrated Resource Plan (IRP), incorporating lower cost fuels, in particular LNG, as well as increased deployment of renewable energy, and greater emphasis on energy efficiency and conservation.

Without question, reliable, affordable energy is essential to the country's quality of life and productivity, including business development. As an organisation with two essential service companies, BELCO and Bermuda Gas, we understand that our responsibilities to the community are unlike those of other non-utility corporations. Ascendant Group's financial stability is important to Bermuda's progress and, thanks to our shareholders, we have always been able to invest capital into our businesses for the benefit of the Island.

Historically, our capital expenditure has surpassed net earnings. Each year since 2003, shareholders have invested between $23 million and $41 million in electricity system infrastructure to maintain the utility's 99.96% system reliability rating, which sets the standard for small island jurisdictions. As a direct result, in 2013, BELCO received the "Best Utility Award" for its performance, as compared with Caribbean electric utilities from CARILEC, the organisation of Caribbean electric utility companies. Investment keeps the system strong, helping to maintain Bermuda's reputation as a sophisticated, well-managed and attractive island jurisdiction.

In 2013, BELCO and iEPC Limited led the development of our comprehensive, strategic energy plan, the IRP, with input from Bermuda Gas, Air Care Limited, iFM Limited and PureNERGY Renewables, Ltd. The major drivers behind the IRP are stabilising the cost of energy to lower prices for consumers, maximising opportunities for energy efficiency and conservation by consumers and increasing deployment of renewable energy resources. The IRP has been developed to ensure a secure, reliable, safe and sustainable energy system that helps the country to meet clean energy targets.

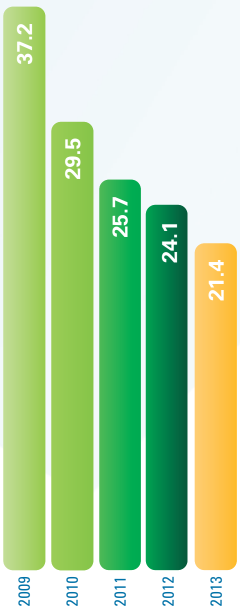
Bermuda's economic recovery depends on the concerted, collaborative effort of Government, the entire Bermuda business community and trade unions. Constructive relationships are essential to the Island's success and to the success of the IRP. Putting the IRP into action will involve forming new business partnerships locally and with overseas investors, as well as developing employees and creating new jobs and business opportunities locally. The IRP has the potential to contribute to Bermuda's economic recovery.

The IRP promotes energy efficiency and conservation by residents and businesses, greatly expands the use of renewable energy sources, includes the use of different fuels and addresses conversion or replacement of aging BELCO engines to meet Bermuda's base-load energy requirement. LNG is presented as the most likely fuel candidate, as it is cleaner and more abundant than fuel oil, with less volatile pricing. A utility-scale, distributed renewable energy solution is another key element of the plan, as there is tremendous scope for renewable energy to grow in Bermuda. At year-end 2013, the Island had about 150 small-scale, solar renewable installations, collectively producing about a half (0.5) megawatt (MW) of power, as well as several commercial-scale installations, producing an additional 0.5 MW.

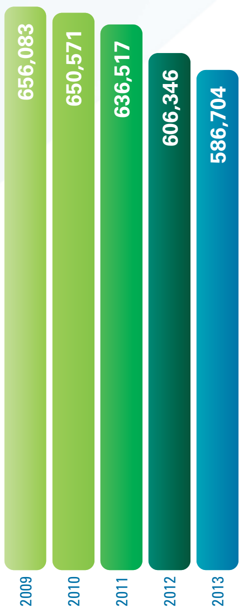
Ascendant Group's IRP takes into account the fact that five years of economic recession have changed local energy usage now and for the foreseeable future. The IRP is influenced by evolving consumer requirements, as well as utility and regulatory models, reflecting global trends and best practices. It has been developed with sensitivity to the ongoing efforts of the Bermuda Government to move forward on clean energy targets, while migrating to industry control by a Regulatory Authority, which will supplant the Energy Commission. At the time of writing this report, the Energy Commission continues to review an interconnection agreement that BELCO put forward in May 2013 for commercial-scale renewable energy producers.

Bermuda's energy future may also include dynamic smart metering to give consumers more control over their energy use, thereby helping them save energy and money. During 2013, BELCO's research into the feasibility of smart metering for a small island community indicated that there could also be substantial benefits for the utility with respect to system, power quality and revenue management.

Annual Investment in Our Business
(Millions of dollars)



Electricity (kWh) **Sales**
(Thousands of kWh as at 31 December of each fiscal year)



Propane Gas Sales
(Thousands of US gallons as at 31 December of each fiscal year)

We will continue exploring this technology in 2014, as smart metering for Bermuda promises to be an affordable, win-win tool for consumers and the Company.

"The major drivers behind the IRP are stabilising the cost of energy to lower prices for consumers, maximising opportunities for energy efficiency and conservation by consumers and increasing deployment of renewable energy resources."

During the second half of 2013, Ascendant Group worked with Government to find a productive, revenue-neutral way to assist financially strapped consumers. The result was a proposed, five-tiered Graduated Facilities Charge (GFC) for BELCO's residential customers, which is designed to reduce electricity costs for those who use the fewest kilowatt hours, while also encouraging energy efficiency and conservation. The GFC was submitted to the Energy Commission on 6 March 2014 and, if approved, could be implemented soon after this report goes to press.

In the normal course of business, and with a view toward stabilising energy costs for the benefit of consumers, in the second half of 2013, BELCO requested proposals for its fuel supplies. As a result, the utility entered into new fuel contracts with two suppliers that met the criteria for industry experience, safety, sound environmental practice and security of supply. Similarly, in 2013, Bermuda Gas worked to ensure reliable propane gas supply and fair prices for customers.

Thanks to dedicated, hard-working women and men throughout our operating companies, Ascendant Group recorded a number of other noteworthy business achievements in 2013:

- Re-accreditation of our crucial Professional Development Programme for Engineers was granted in 2013 by the internationally recognised Institution of Mechanical Engineers and Institution of Engineering Technology. Significantly, we were able to have it re-accredited as an Ascendant Group programme. Engineering graduates earn their Chartered Engineer certification through the programme, as they contribute to our Company's progress.

- Bermuda Gas continually strives to provide new products, new services and to find new and better ways to serve customers. For 2013, expense management and increased productivity were central to the propane gas supply, service and appliance operation. Bermuda Gas saw increased appliance sales and service productivity improvements, although it lost several key commercial gas customers to competition. Bermuda Gas engaged in propane gas safety training for all staff, following U.S. National Propane Gas Association standards, as part of the operating company's ongoing effort to cultivate a culture of service excellence.

- Bermuda Gas expanded the incorporation of cost-effective events into product promotion to drive traffic to its superb showroom kitchen and outdoor grill facilities. Among the events hosted: Bermuda Economic Development Corporation's (BEDC) Global Entrepreneurship Week reception, filming the weekly "Seasoned to Taste" cooking segments for VSB-TV 11, The Bermudian magazine's Building Design Awards reception and the City of Hamilton Food Festival Chef Competitions.

- Business development is also a priority for AG Holdings Limited's operating companies. Throughout 2013, Air Care offered new services and products to existing and potential customers, including state-of-the-art Johnson Control products.

In conjunction with its product partners, Air Care also hosted seminars on high-efficiency lighting solutions and building efficiency and performance, emphasising added value in a highly competitive marketplace.

■ With the hiring of a General Manager, iFM, which is jointly owned by Ascendant Group and Black & McDonald, spread its wings in 2013. iFM is actively seeking new facilities management business, while also concentrating on continuous service improvement for existing customers.

> *"Ascendant Group's financial stability* is important to Bermuda's progress and, thanks to our shareholders, we have always been able to invest capital into our businesses for the benefit of the Island."

■ AG Holdings' operating companies PureNERGY and iEPC played integral roles in providing support to Ascendant Group projects. With the help of Company volunteers and others, they installed solar panels on Nonsuch Island in June 2013, as part of Ascendant Group's 10-year commitment to assist Conservation Services with restoration work there. Nonsuch lost its original solar installation during Hurricane Fabian in 2003, operating with just a generator ever since. Now, the nature reserve's classrooms and residence have renewable power when they need it. The installation also powers "cahow cams" inside the seabirds' burrows. Ascendant Group is pleased to help Conservation Services manage and shed light on Bermuda's natural heritage.

■ An independent agency re-certified BELCO for its ISO 14001 Environmental Management System; BELCO is Bermuda's only ISO 14001-certified company. The utility also completed critical safety-hazard identification and risk-assessment exercises, as work continues into 2014 toward instituting a comprehensive Safety Management System (SMS). Ensuring safe systems and practices for our employees and the public is among our highest priorities.

■ In an exciting development for our Company and the Island, in August 2013, BELCO won Government's competitive bid for streetlighting maintenance with an innovative proposal that included potential conversion of Bermuda's 4,000 streetlights to white LED (light emitting diode) luminaires from yellow HPS (high pressure sodium) fixtures. In the fourth quarter of 2013, Government's Department of Works & Engineering, with BELCO and manufacturer LED Roadway Lighting (LRL), launched an LED pilot project on Trimingham Road in Paget. It was successfully completed in January 2014, and could lead to retrofitting the Island's streetlights over two years with BELCO and LRL funding the project. LED luminaires require less frequent replacement and maintenance. They are also energy efficient, saving money while helping meet 'green' targets. The new LED network would include an integrated, wireless monitoring and control system to enable asset control, such as identifying streetlight outages for more reliable service.

■ Ascendant Group's investment in the Bermuda community touches people's lives in many ways. In 2013, we reported on the societal and community aspects of Ascendant Group's investment in our first "Corporate Responsibility Report", which complements the financial information in the Annual Report to shareholders. We elected to produce the Corporate Responsibility Report in order to detail the full scope of how we fulfil our commitments to stakeholders.

■ An excellent example of innovative community support is our new "Science, Technology, Engineering and Mathematics" or STEM Camp for middle-school students, which was launched in summer 2013 and will be repeated in summer 2014.

STEM Camp was developed internally with support from professional educators, and it garnered positive feedback from students, parents and the Ministry of Education. Ascendant Group is committed to furthering STEM education, which promises to help Bermuda develop a workforce that is well-prepared for an increasingly technological business world.

With the right foundations in place, transforming our evolving Company into a diverse, excellent, sustainable operation depends on people working together. We are pleased that in 2013 teams from our management and unions completed successful negotiations of Collective Agreements with all parties taking into account our operating companies' financial challenges. We are grateful to the management negotiating team and to the teams representing the Electricity Supply Trade Union at BELCO and Bermuda Gas, and the Bermuda Industrial Union bargaining unit at Air Care. It is worth noting that in 2013 Air Care was recognised for the third time by *Bottom Line* magazine as one of Bermuda's "Top 10 Employers" and again won Caron Bermuda's award for its drug and alcohol policy, which complements a comprehensive Wellness Programme.

Across Ascendant Group, we take our commitments to employees seriously, including safety, wellness, compensation and benefits, training, career development and succession planning. We rely on and are proud of our staff, and we are fortunate to have many dedicated, long-serving employees. We are extremely grateful to them for their steadfast commitment to excellence. Our employees make the difference, giving their all as a matter of personal pride, and for the benefit of the Company and the country.

The Board of Directors' contribution to Ascendant Group's advancement is equally appreciated. We benefit from the guidance of committed Directors, who have seen the Company through successes and challenges. We also benefit from fresh input and, in 2013, were pleased to welcome three new Directors to the Ascendant Group Board. Michael L. Schrum joined in February 2013, followed in May by Alasdair Younie and A. Shaun Morris, each bringing distinct experience, expertise and points of view. In 2014, retirement will lead to additional changes in leadership, including the appointment of a new Chairman. We are grateful to departing colleagues for their contributions to the organisation and welcome the input of those who are joining us.

Ascendant Group is fortunate to have a vast breadth of experience, knowledge and talent to draw on amongst Directors, executives, officers, employees and advisors, as we strive to be part of the solution to the country's economic turnaround and long-term stability. We are heartened by Government's efforts to refresh the Island's attractiveness to international business and investors by reducing debt, eliminating waste and pursuing new opportunities for growth.

We are committed to building an ever-stronger organisation that is well positioned to be a valuable contributor to Bermuda's bright future.

S. REGINALD MINORS
Chairman of the Board

WALTER M. HIGGINS
President & Chief Executive Officer

FROM OUR **CHAIRMAN**

Following my retirement at Ascendant Group's 2014 Annual General Meeting of Shareholders, a new Chairman will be elected to lead the Board of Directors. In reflecting on 19 years of service as a Director, I am pleased to have been part of Ascendant Group's progress. The Company continues to grow with Bermuda, as the Island adapts to the increasingly global marketplace. The Company's ongoing, positive development is due to the quality of its people. Ascendant Group has a strong, impressive team of Directors, executives and officers, supported by talented staff, who have come together and worked extremely well to move the Company forward. Succession planning ensures that progress will continue. I am grateful to have been part of this journey and wish the team, and especially the new Chairman, well as they build an even better Company for the benefit of our Island.

S. REGINALD MINORS
Chairman of the Board

FROM OUR **PRESIDENT & CEO**

Ascendant Group is most fortunate to have had the service of S. Reginald Minors as Chairman of the Board since 2012, as Deputy Chairman for eight years and as a Director since 1995. We are grateful for his unfailing support of our Company and for the leadership that he has provided. Mr. Minors has served with distinction, contributing his broad business experience and perspective, knowledge of the local marketplace and genuine concern for the well-being of our staff and the people of Bermuda. The Directors will miss the humour, wisdom, leadership and even-tempered approach that Mr. Minors has consistently brought to the Boardroom. We are grateful for his support of this Company and for the support he has provided to colleagues. It is my privilege to speak for all at Ascendant Group in saying that we thank our good friend and trusted advisor, S. Reginald Minors, for his service. We wish him well, as he retires as Chairman of the Board of Directors at our Annual General Meeting in June 2014.

WALTER M. HIGGINS
President & Chief Executive Officer

MANAGEMENT'S DISCUSSION & ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion & Analysis of Financial Condition and Results of Operations may contain forward-looking statements that involve inherent risks and uncertainties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based upon current plans, estimates and expectations. Actual results may differ materially from those projected in such forward-looking statements and, therefore, undue reliance should not be placed on them.

This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto.

EXECUTIVE OVERVIEW

Ascendant Group Limited is a Bermuda-based, publicly traded holding company that provides energy and infrastructure solutions through its wholly owned subsidiaries Bermuda Electric Light Company Limited (BELCO), Bermuda Gas & Utility Company Limited and AG Holdings Limited.

The Company's consolidated earnings for 2013 decreased $6.6 million, or 57.6%, to $4.9 million from $11.5 million in 2012. Metering issues discovered during the year had a significant negative effect on the Company's electricity revenues. In addition, the continuing impact of the challenging Bermuda economy on revenues, coupled with energy conservation and significant increases in costs incurred to maintain aging equipment, pension expense for its Defined Benefit Pension Plan (DB Plan) and rising healthcare costs, had a substantial impact on BELCO's earnings. The combination of the economy and competition resulted in declines in Bermuda Gas' sales and related earnings in the current year, while improvement in AG Holdings' results was largely attributed to 12 months of Air Care Limited earnings being recognised in 2013, compared to seven months in 2012, as that company was acquired in late May 2012.

The following table presents an analysis of our net income for the years ended 31 December 2013 and 2012:

Net Earnings for the Year

	2013	2012	VARIANCE	
	$000's	$000's	$000's	%
BELCO	5,560	13,160	(7,600)	-58
Bermuda Gas	536	1,413	(877)	-62
AG Holdings	3,092	428	2,664	622
Ascendant Group Corporate Expenses	(4,299)	(3,470)	(829)	-24
	4,889	11,531	(6,642)	-58

As a result of the significant decline in net earnings in 2013 from 2012, earnings per share has fallen 63.6% to $0.39 in the current year versus $1.07 for 2012. The market price of Ascendant Group's shares, as listed on the Bermuda Stock Exchange, declined 14.8% in 2013, closing the year at a price of $10.25, down from $12.03 at the end of 2012. Ascendant Group's book value also declined 1.8% in the current year from $31.18 per share at the end of 2012 to $30.62, which was due to the dilutive effect of 120,349 new shares issued during the year and the payment of dividends in excess of net earnings. The 2013 cash dividend of $0.85 per share remained unchanged from 2012. On 18 March 2014, the Company's Board of Directors announced a full review of Ascendant Group's dividend policy, as the Company seeks to balance the deployment of its capital to support significant re-investment in the next generation of electricity infrastructure. The review is taking place in consideration of the difficult economic conditions in Bermuda and the associated challenges.

PRIMARY FACTORS AFFECTING ASCENDANT GROUP'S BUSINESS

The following is a summary of the primary factors we expect will continue to have the greatest impact on Ascendant Group's performance.

Bermuda's Economy – BELCO's core electricity sales have declined annually since 2009 primarily due to the weakening Bermuda economy. BELCO's customer base has decreased due to the departure of some of the non-Bermudian labour force, as international companies consolidated their operations outside of Bermuda or significantly reduced staffing levels on the Island. In addition, many customers are conserving and reducing their electric energy consumption, adding to the downward pressure on sales. These are the primary drivers for the steady decline in kilowatt hour (kWh) sales from the high reached in 2009 of 656.1 million kWh to 586.7 million kWh in 2013, a decrease of 69.4 million kWh, or 10.6%. Furthermore, an increase in Bermuda's unemployment rate, together with a lack of consumer confidence, arising from the economic uncertainty, has had a negative impact on revenues from the sale of goods and services provided by the Company's other operations. Also, as customers have competing priorities for their reduced incomes, an increasing number of them have been unable to pay their accounts in full and in a timely manner. Consequently, the Company continues to incur costs due to bad debt provisions. Interest costs have also risen, given the increase in debt, to address fuel purchases and other operating requirements as cash inflows have remained under pressure.

Regulatory Environment – As the Island's major provider of electricity, BELCO is regulated by the Bermuda Government's Energy Commission for its future fuel adjustment rate and basic tariff rate requests. In addition, BELCO is also closely scrutinised by the Government of Bermuda, and the Departments of Energy and Environmental Protection with regards to its operating licence submissions. Therefore, BELCO continues to manage its relationships with all key Government ministries and personnel carefully to develop collaborative results that determine the best energy solution for Bermuda, which will address affordability, sustainability and environmental standards and goals.

Operating Expenses – As overall sales have declined over the past several years, the Company must find ways to reduce operating costs without impacting its ability to meet customers' needs for service. Fuel represents the largest cost incurred by the Company and comprises approximately 50% of total expenses. Thereafter, compensation and benefits costs represent a significant category of expenses that the Company incurs. Over the last several years, the Company has taken steps to control these costs through early retirements and changes to employee benefits. The Company is also reviewing other options to reduce its overall compensation cost, whilst ensuring there is an efficient deployment of staff possessing the necessary skill sets and core competencies to meet operational requirements and maximise productivity in a safe, secure working environment.

Competition – All group entities now participate in competitive markets. Customers in Bermuda have more choices for all products and services offered by the Company. As such, the Company must ensure it is price-sensitive, as well as efficient and effective at managing costs and, most importantly, meeting customers' needs. These factors ensure that all entities under the Ascendant Group umbrella can continue to compete successfully.

Relationship with Company Unions – Negotiations to renew the Collective Agreements between unionised staff and the Company's electric, gas and air conditioning operations were successfully completed at the end of 2013. The new Collective Agreement between BELCO and its unionised employees is for the period 1 January 2014 to 1 January 2019. Under the terms of the agreement, wages are frozen for the first two years from 1 January 2014 through 31 December 2015, and increase annually for each of the final three years at the same rate as the Consumer Price Index (CPI), as determined by the Government of Bermuda's Department of Statistics. The new Collective Agreement between Bermuda Gas and its unionised staff is in effect for the period from 6 January 2014 to 4 January 2016. Under the terms of this agreement, unionised employees will receive annual wage increases equal to the CPI. On 10 June 2013, Air Care entered into a new three-year Collective Agreement with its unionised employees. Under the terms of this agreement, which expires on 10 June 2015, wages for unionised employees are reviewed annually at the agreement's anniversary. For the first year of the agreement, wages were increased by 1%. The Electricity Supply Trade Union represents unionised employees of both BELCO and Bermuda Gas, and the Bermuda Industrial Union represents Air Care's unionised staff. The negotiating teams from both the unions and management are congratulated for their efforts, which ensure that the Company is able to continue its operations, while controlling labour costs and benefits and maintaining sufficient well-trained staff to support operating activities.

Weather Conditions – Hurricanes and winter storms can result in significant costs to restore and rehabilitate electric service and mitigate revenue loss. Weather stimulates buyers to consider whether to purchase air conditioning, gas appliances and other group products and services. It also determines whether more heating or air conditioning powered by electricity or gas is required. Consequently, the operations of most entities within Ascendant Group can be positively or negatively affected by the climate conditions in any given month or year.

RATES AND REGULATION

In October 2011, the Company submitted a request to the Energy Commission to increase its basic customer tariff rates an average of 4.3%, 3.9% and 4.1% in 2012, 2013 and 2014, respectively, to finance the cost of new generation plant, as well as upgrades to its transmission and distribution network. The Energy Commission approved rate increases of approximately 1.25% and 2.8%, effective 1 March 2012 and 1 January 2013, respectively, declining to approve any rate increase in 2014.

The Company appealed this decision, as well as several others made by the Commission, to the Minister of Environment, Planning and Infrastructure Strategy. On 9 May 2012, the Minister upheld the Commission's decision on the rate increase, as well as several others, while overturning decisions on some other matters. The Company appealed the matter to the Supreme Court of Bermuda for a judicial review of the Minister's decision.

On 2 October 2012, the Company announced that it had discontinued its Supreme Court legal action seeking judicial review of Government's final decision of the rate change order. The Minister overturned the Commission's decisions on the remaining matters. The Company's decision to drop the legal action was predicated on the erosion of the local economy and a decrease in population, as well as the high price of oil used to fuel the Company's generating plant, resulting in high overall electricity prices. The Company believes there is an opportunity to review and reconsider plant replacement, taking into account the reduction in electricity consumption and overall demand, conservation, the potential of cleaner, less carbon-intensive fuel and renewable resources.

On 6 March 2014, the Company submitted a request to the Energy Commission to replace the current fixed $33.00 per month Facilities Charge levied on its residential customers, with a Graduated Facilities Charge (GFC). The proposed GFC would group residential customers into one of five specific tiers based upon the 12-month rolling average of their daily electricity consumption. If approved, the GFC would result in a lower monthly Facilities Charge for lower-usage residential customers and slightly increase the overall cost for those who consume the highest number of kWh per month. The proposed transition from a fixed Facilities Charge to the GFC is designed to be revenue neutral and will, therefore, have no impact on the Company's sales. The Company anticipates a decision from the Energy Commission after this report goes to press.

RESULTS OF OPERATIONS

BELCO

BELCO's net income fell $7.6 million to $5.6 million for the year, as compared to 2012 net income results of $13.2 million, which follows a decline of $1.4 million from 2011 results of approximately $14.6 million.

Sales of electricity net of fuel adjustment for 2013 totalled $143.3 million, a decrease of $2.1 million versus $145.4 million in 2012.

During 2013, the Company's Protection, Control & Metering Department (PC&M) commenced an audit of both demand and commercial customer meter installations to determine the accuracy and completeness of metered sales from these customer groups. The findings from work completed to date revealed several issues:

- A number of customers had not been billed, as the meter installation information was not entered in the billing system (in these instances, customers were subsequently notified and related sales receivables recovered);
- A number of customers had been either over- or under-billed due to meter connection issues.

As a result of these findings, the Company implemented the following policies:

- In those instances where a customer was over-billed, and the amount can be determined, the Company would seek to credit the customer's account for the error; and
- In those instances where a customer has been under-billed, and there is no evidence to indicate that the customer has made any changes to the metering equipment, the Company would not seek recovery of any unbilled amounts from the customer. In the event the Company determines that there have been inappropriate changes to its metering equipment, every effort will be made to collect all amounts due from the customer.

Analysis of the audit's findings to date (which retroactively cover some nine years) has determined that the Company has net under-billed approximately $8.5 million in revenue. It is important to note also that the meter connection issues highlighted in both demand and commercial customer classes are not present in the residential metered customer class. Based on 2013 actual findings and management's best estimate of liability due to over-billing of both demand and commercial class customers, given metered connection error findings and the Company's newly established policy, the Company has reduced its revenue by $2.4 million and accrued a liability of that same amount, as at 31 December 2013, for accounts that were over-billed.

The audit being carried out by PC&M is expected to be completed in 2014. The Company has also contracted overseas experts to carry out an independent sample audit of these customer meters to substantiate that the meter audit conducted by the Company meets industry best practice, is complete and is accurate. The Company has already introduced a number of operational and organisational changes to prevent these types of issues recurring.

BELCO's kWh sales declined 19.6 million kWh, or 3.2%, from 606.3 kWh sold in 2012 to 586.7 million kWh sold in 2013, continuing the downward trend of electricity sales since 2009. However, this decrease in energy sales was offset by the aforementioned increase in basic tariff rates approved by the Energy Commission, effective 1 January 2013. The net effect of these two items in 2013 was a modest increase in revenue of $0.2 million.

The Company has also seen an increase in the number of residential customers who have installed either small-scale renewable generating systems or solar water-heating systems to support part or all of their energy requirements. Since 1 November 2010, the Company has entered into approximately 150 interconnection agreements with residential customers who have installed small-scale renewable generating systems at their homes. Any power generated that is in excess of the residential customer's energy demand is transferred to the Company's transmission and distribution network, resulting in the residential customer receiving a credit against their monthly electric bill, thereby reducing their overall annual electric energy cost. The Company credits the customer's electricity account for energy it receives from them at the same rate, as approved by the Energy Commission, that it sells to its residential customers. The Company retains the cost of this electricity purchased and does not seek to recover this from its customers. In addition, the Company currently does not charge these customers for the use of its transmission and distribution network for the transfer of electricity that they generate. In 2011, residential net-metered sales totalled 59,717 kWh, costing the Company $13,736. In 2013, this has increased to 282,407 kWh with a net cost to the Company of $69,641. The total cost of this programme to the Company, since its inception in November 2010, is $115,176.

As shown in the table below, BELCO's electric sales have declined 69.4 million kWh, or 10.6%, since reaching a peak of 656.1 million kWh in 2009. This trend of declining electricity sales is the direct result of the contraction of the Island's economy, as well as conservation measures taken by many customers to reduce their electric energy consumption in response to the higher total cost of electricity caused by higher fuel costs.

BELCO Statistics: 2009 - 2013

	2013	2012	2011	2010	2009
Maximum Demand (KILOWATTS)	**110,100**	113,700	118,200	122,800	122,300
Kilowatt Hours Generated (000s kWh)	**665,204**	688,179	716,784	730,224	738,455
Electricity Sales (000s kWh)					
Residential	**244,421**	249,749	265,243	276,824	271,682
Commercial	**295,043**	307,269	316,356	320,527	326,728
Other	**47,240**	49,328	54,918	53,220	57,673
Total	**586,704**	606,346	636,517	650,571	656,083
Net Price per Kilowatt Hour (CENTS)					
Residential Total	**37.58**	44.93	41.23	37.95	36.82
Energy	**22.67**	26.18	25.66	25.45	24.44
Fuel	**14.91**	18.75	15.57	12.50	12.38
Commercial Total	**43.40**	43.79	39.92	37.09	31.31
Energy	**26.18**	25.52	24.85	24.88	20.78
Fuel	**17.22**	18.27	15.07	12.21	10.53
Total Metered Connections	**35,666**	35,770	35,862	35,668	35,533

Fuel adjustment revenues (FAR) decreased $8.3 million to $95.8 million from $104.1 million in 2012, due to a combination of lower prices, reduced generation of electricity that resulted in lower kWh sales for the Company and an improvement in overall generation efficiency. The average price of fuel in 2013 was approximately $131.47 per barrel, as compared to $135.00 per barrel in 2012, which amounted to $3.3 million of fuel savings. The decrease in kWh sales volume noted above is responsible for $3.2 million of the overall decrease, while an improvement in overall generation efficiency and a decrease of 2.7 million total kWh purchased from the Bermuda Government's Tynes Bay waste-to-energy incinerator plant was responsible for the balance of the total decrease. The Company does not incur any profit or loss on fuel adjustment; hence, this revenue is offset by identical fuel costs reflected in Operating and Administrative Expenses.

Operating expenses decreased $7.2 million in 2013 to $243.5 million, compared to $250.7 million in 2012, again largely due to the aforementioned decrease in fuel costs.

However, the decrease in fuel costs were offset by large increases in several expense items, namely:

- Costs incurred for the Company's DB Plan rose to $2.6 million in 2013 as compared to $574,200 in 2012. This was due to a change in the DB Plan's investment policy to reduce the amount of equity investments and increase holdings in fixed-income securities to better match future liabilities. In addition, the increase is also due to higher amortisation of accumulated actuarial losses, as a result of a decrease in the discount rate used in the DB Plan's actuarial assumptions.

At the end of 2011, the Company froze benefits accruing to active members of the DB Plan with all employees covered under the plan transitioned to a Defined Contribution plan in 2012. Management is currently considering additional options to further mitigate the risk of the DB Plan on the Company's financial position.

- Future healthcare costs increased approximately $1.6 million in 2013 versus 2012, due to a change in actuarial assumptions.

- The Company established a provision and incurred an expense of $500,000 for the likely settlement of a contingent liability stemming from a dispute with IBM World Trade Corporation (IBM) over end-user licence fees associated with the implementation of IBM's MAXIMO system in 2012.

- Additional costs of $832,823 were incurred to maintain BELCO's aging generating plant in order to meet electricity demand.

Bermuda Gas

Bermuda Gas' net earnings decreased $877,789, or 62%, to $535,671 in 2013 from $1.4 million in 2012, due to reduced gas sales, as a result of both the challenging economic conditions and competition. The decline in gas sales was offset to some extent by cost control, increasing appliance sales and improving efficiencies in the Service and Parts Department.

Bermuda Gas' current-year operating expenses decreased 6% when compared to 2012, which was mainly due to less reliance on outside contractors, and building relationships with suppliers to cover marketing initiatives.

AG Holdings

Established in October 2012, AG Holdings manages all of the Company's non-utility business operations, including Air Care, iEPC Limited, iFM Limited, PureNERGY Renewables, Ltd., and Ascendant Properties Limited. Net earnings from AG Holdings for 2013 of $3.1 million represents an improvement of $2.7 million, or 622%, versus earnings of $427,676 in 2012.

The primary reason for the increase in current year results is attributed to the Company's investment in Air Care. In late May 2012, the Company acquired a majority investment in Air Care, which earned $717,063 for the seven-month period ended 31 December 2012, of which $451,779 is attributable to Ascendant Group shareholders. For the 12 months ended 31 December 2013, Air Care earned $3.3 million, of which $2.6 million is attributable to Ascendant Group shareholders. The Company's initial investment represented a 57% stake in Air Care, which has increased to approximately 85% as at 31 December 2013. The Company will complete its acquisition of 100% of Air Care on or about 1 August 2014.

iFM, the Company's joint venture with the Bermuda-registered, exempted subsidiary of Black & McDonald Limited (B&M) in its second year of operation, contributed $199,000 to Ascendant Group's net earnings versus $103,000 in the previous year through services provided under property management agreements with The Bank of N.T. Butterfield & Son Limited and HSBC Bank Bermuda Limited, and their respective affiliates located in Bermuda.

PureNERGY posted a loss for the current year of $217,000, as compared to the $385,000 loss recognised in 2012. This improvement in results is directly attributed to recognition of earnings derived from the Grand Atlantic Project, following completion of all project work in March 2013. PureNERGY will continue to remain small and narrowly focused, while management determines how to position it successfully to address changes in the energy solutions that Ascendant Group plans to offer the marketplace, as well as economic turnaround.

Ascendant Group Corporate Expenditures

Net corporate expenditures increased $829,000, or 24%, in 2013 to $4.3 million from $3.5 million in 2012. Significant items that comprise this variance are as follows:

Financial Advisor: $400,000. The Company paid $400,000 to retain the services of an investment bank to act as its exclusive financial advisor in evaluating new opportunities, operations and capital structure and financing options.

Training Costs: $130,000. Newly promoted officers were provided with training and development opportunities to enable them to adjust to the requirements of their new roles.

Legal Fees: $109,000. Various firms were engaged to review agreements associated with new opportunities that were considered, as well as to provide advice associated with various issues that arose during the year.

Employee Benefit Expenses: $308,000. Primarily due to continuing increases in healthcare and DB Plan costs, as well as increases due to promotions or CPI-related compensation increases.

LIQUIDITY AND CAPITAL EXPENDITURE

The Company's liquidity needs are driven by factors that include: fuel prices; impact of weather on customer bills; working capital requirements of all operating entities; timing of construction of plant and expenditures associated with capital projects; repayment of debt; timing and receipt of credit sales; and amounts and timing of dividend payments.

Cash Flows from Operating Activities – Liquidity needs are first met with net cash provided by operating activities. Net cash provided by operating activities totalled $38.0 million and $16.7 million for 2013 and 2012, respectively. Operating activities produced more cash in 2013, as compared to 2012, primarily due to the timing of fuel shipments, as BELCO received a $15.3 million fuel shipment at the end of 2013, which was paid for in January 2014.

Cash Flows used in Investing Activities – Ascendant Group has a continuing need for cash resources and capital to invest in electric utility plant, replacement facilities and equipment and any investment activity. The Company paid $1.9 million to Air Care minority shareholders on 1 August 2013 to purchase a greater stake in the Company from its former owners. The acquisition is being financed by a $15.5 million revolving loan from The Bank of N.T. Butterfield & Son Limited (the Bank) and is payable by Air Care. Drawdowns are being made on the facility within the initial 39 months of the facility term, during which time repayments comprise only interest accrued on the outstanding loan balance, which is calculated on a daily basis and paid on the last day of each calendar month. Air Care is also required to pay the Bank 0.25% per annum on the average daily unused portion of the loan from the initial drawdown date until the expiry of the revolving period. The loan is for a term of eight years and interest is payable at 1.5% per annum above the Bank's Bermuda Dollar base rate. The loan is secured by a debenture over Air Care's assets and undertakings and then by a guarantee from Ascendant Group.

The bulk of the $21.4 million spent on acquisition of property, plant, equipment and intangible assets (2012: $24.1 million) was spent on BELCO-related capital projects. Major 2013 capital expenditure included:

System Refurbishment and Upgrades: $3.1 million. Significant spend is required annually to improve the security and integrity of both the overhead and underground transmission and distribution network throughout the Island. Planned work carried out in 2013 was based on circuit inspections, fault data and customer issues reported and typically involving the replacement of transformers, circuits, cutouts, etc.

East Power Station Upgrades (steam to hot water conversion): $2.1 million. The current steam-heating system required to heat fuel to be used in generation plant was at the end of its useful life and obsolete in design. Rather than maintain this system further, it was decided to introduce a hot water heating system currently in use in other parts of the plant. This heating system can be re-purposed to serve future engines, once existing old engines in the East Power Station are decommissioned.

Engine Realignment, Generating Units E7 and E8: $1.7 million. The operation of these generating units since their introduction into service in 2005 resulted in the engine alignment exceeding recommended manufacturer specifications and presented a significant risk of a major engine failure. Based upon the current operating regime, it is anticipated that realignment will again be required within the next five to eight years, resulting in similar costs. The Company is investigating alternatives to realign the engines to reduce both future downtime and realignment costs.

National Stadium Substation: $1.7 million. A new substation was completed during 2013 to meet both the increased energy supply required by the new National Aquatic Centre, as well as to address electricity demand requirements for customers in the Prospect area. The National Stadium substation is housed in a new building and consists of two 7.5/10.0 megavolt ampere (MVA) transformers, 22 kilovolt (kV) and 4kV switchgear and required ancillary equipment.

Meter Service and New Supply: $3.0 million. Costs incurred to address new supply service and other customer-initiated service projects include labour, installation, transformers, cables, overhead lines, etc.

Storage Area Network (SAN) Replacement: $700,000. The existing SAN environment was nearing the end of its useful life. Therefore, in order to mitigate rising support costs, risk of higher failure rates and increasing capacity requirements, it was decided to replace this equipment. This investment will enable the Company to meet anticipated data storage requirements for the next 5 to 10 years, therefore, satisfying group requirements for growth, efficiency, reliability and longevity.

Major Transformer Upgrades (Hospital, St. John's and St. George's): $1.2 million. Two new 7.5/10.0 MVA transformers were installed in 2013, replacing the two existing 5.0 MVA transformers that were installed in 2010, given their availability at that time in order to meet the anticipated increased demand in 2014, when the new acute care wing of the King Edward VII Memorial Hospital is completed.

Peak load experienced on the two existing St. John's Road 5.0 MVA transformers exceeded the Company's design criterion for this location. As a result, the existing transformers were replaced by two new 7.5 MVA transformers, restoring the firm capacity standard for key substation transformers. The replaced transformers will be repositioned to replace other transformers elsewhere in the network that have reached the end of their useful lives.

The St. George's substation transformers were replaced to alleviate environmental risk concerns. The four existing transformers were located on the roof of the old St. George's depot and posed a risk to the ground and harbour in the event of an oil leak. The existing transformers were replaced with two new 2.5 MVA transformers located at ground level in an appropriately designed transformer compound, equipped with oil-loss protection.

Cash Flows from Financing Activities – Proceeds from the issuance of capital stock is associated with 120,349 Company shares issued during 2013 (2012: 71,663 shares) in accordance with the Company's long-term incentive plan, Directors' fees, retirement and employee service awards, as well as employee purchases. Net proceeds from bank borrowings decreased in 2013 by $3.5 million due to a $4.6 million decrease in the balance drawn down by BELCO under its overdraft facility with The Bank of N.T. Butterfield & Son Limited (2013: $29.8 million; 2012: $34.4 million) used to finance fuel shipments, which was offset by an increase in Air Care borrowing of $1.1 million, related to Air Care 2013 acquisition financing. Dividends paid to Ascendant Group shareholders in the current year totalled $8.97 million (2012: $8.88 million).

MANAGEMENT'S REPORT

TO THE SHAREHOLDERS OF ASCENDANT GROUP LIMITED

The consolidated financial statements of Ascendant Group Limited presented in this report have been prepared by Company personnel in accordance with Bermudian and Canadian Generally Accepted Accounting Principles. The integrity and objectivity of the data in these financial statements are the responsibility of management. In preparing these statements, management makes informed judgments and estimates of the expected effects of events and transactions that are being reported.

The Company's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorisation. Internal accounting controls also provide assurance that transactions are recorded properly, so that financial statements can be prepared according to Generally Accepted Accounting Principles. In addition, the Company's accounting controls provide reasonable assurance that errors or irregularities, which could be material to the financial statements, are prevented or detected by employees within a timely period as they perform their assigned functions. The Company's accounting controls are continually reviewed for effectiveness by management.

The accompanying consolidated financial statements have been audited by PricewaterhouseCoopers, independent auditors. Management has made available to PricewaterhouseCoopers all of the Company's financial records and related data, as well as representations we believe to be valid and appropriate. The accompanying report of the independent auditors is based on their audit conducted in accordance with Generally Accepted Auditing Standards.

WALTER M. HIGGINS
President & Chief Executive Officer

CHRISTOPHER A. COELHO
Senior Vice President & Chief Financial Officer

INDEPENDENT **AUDITOR'S REPORT**

TO THE SHAREHOLDERS OF ASCENDANT GROUP LIMITED

We have audited the accompanying consolidated financial statements of Ascendant Group Limited, and its subsidiaries, which comprise the consolidated balance sheet as at 31 December 2013, and the consolidated statement of earnings, consolidated statement of retained earnings and consolidated statement of cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Bermuda and Canada, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. 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 auditor's 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 auditor considers 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 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 financial position of Ascendant Group Limited and its subsidiaries as at 31 December 2013 and their financial performance and their cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

PricewaterhouseCoopers Ltd.

Chartered Accountants

Dorchester House
Hamilton, Bermuda
14 April 2014

CONSOLIDATED **BALANCE SHEET**

As at 31 December 2013

	NOTES	2013	2012
ASSETS			
Current Assets			
Cash and Cash Equivalents	10	$ 7,580,325	$ 4,023,010
Accounts Receivable	3, 15	21,569,693	24,519,928
Inventory	6, 13	72,698,771	69,133,215
Prepaid Expenses and Other Assets	11	23,600,453	16,879,152
		125,449,242	114,555,305
Non-Current Assets			
Property, Plant and Equipment	4	281,874,805	285,303,089
Intangible Assets	5	13,868,916	14,162,173
		295,743,721	299,465,262
		$ 421,192,963	$ 414,020,567
LIABILITIES AND CAPITALISATION			
Current Liabilities			
Customer Deposits		$ 495,858	$ 268,329
Trade and Other Payables	12, 16, 17	35,667,601	22,516,269
Future Health Costs	11	14,041,937	11,537,089
Redemption Liability		2,509,081	2,459,088
Deferred Revenues		566,925	1,092,116
Bank Borrowing	9, 10	29,839,636	34,476,610
		83,121,038	72,349,501
Non-Current Liabilities			
Bank Borrowing	9, 10	12,359,198	11,250,809
Redemption Liability		–	2,509,081
		12,359,198	13,759,890
Capitalisation			
Capital Stock	7	10,638,061	10,517,712
Share Premium	7	29,901,982	28,703,206
Treasury Stock	7	(845,803)	(845,803)
Contributed Surplus		22,549,745	22,549,745
Retained Earnings		262,291,905	265,924,888
Non-controlling Interest	8	1,176,837	1,061,428
	10	325,712,727	327,911,176
		$ 421,192,963	$ 414,020,567

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED **STATEMENT OF EARNINGS**

For the year ended 31 December 2013

	NOTES	2013	2012
Revenues			
Operating Revenues		$ 247,673,871	$ 260,423,540
Other Income		1,884,266	2,897,831
	14	249,558,137	263,321,371
Expenses			
Operating and Administration Expenses		218,376,551	226,199,089
Depreciation and Amortisation		25,122,773	24,477,949
		243,499,324	250,677,038
Operating Income		6,058,813	12,644,333
Interest Expense			
Interest on Debt		754,594	656,600
Other		38,603	66,839
		793,197	723,439
Earnings before Undernoted Items		5,265,616	11,920,894
Foreign Exchange Loss		395,148	393,373
Change in Fair Value of Held for Trading Investments		(18,292)	(3,843)
Net Earnings for the Year		$ 4,888,760	$ 11,531,364
Basic and Fully Diluted Earnings per Share		$ 0.39	$ 1.07
Profit attributable to:			
Shareholders		$ 4,119,304	$ 11,266,080
Non-controlling Interest		769,456	265,284
		$ 4,888,760	$ 11,531,364

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED **STATEMENT OF RETAINED EARNINGS**

For the year ended 31 December 2013

	NOTES	2013	2012
Balance – Beginning of Year		$ 265,924,888	$ 268,507,330
Redemption Liability on Business Combination		–	(4,968,169)
Decrease in Non-controlling Interest		1,222,113	–
2013 Net Earnings attributed to Shareholders		4,119,304	11,266,080
Dividends Paid		(8,974,400)	(8,880,353)
Balance – End of Year		$ 262,291,905	$ 265,924,888

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED **STATEMENT OF CASH FLOWS**

For the year ended 31 December 2013

	NOTES	2013	2012
Cash Flows from Operating Activities			
Earnings for the Year		$ 4,888,760	$ 11,531,364
Adjustments to Cash Basis:			
Depreciation and Amortisation		25,122,773	24,477,949
Inventory Write-Off	6	335,857	397,319
Deferred Revenues		(525,191)	713,592
Changes in Non-Cash Working Capital Balances:			
Accounts Receivable		2,950,235	(1,109,072)
Inventory		(3,901,413)	967,788
Prepaid Expenses and Other Assets		(6,721,301)	(10,818,466)
Customer Deposits		227,529	(33,001)
Trade and Other Payables		13,151,331	(10,779,146)
Future Health Costs		2,504,848	1,356,260
		38,033,428	16,704,587
Cash Flow Used in Investing Activities			
Acquisition of Investment in Subsidiary		–	(9,483,988)
Acquisition of Interest in a Subsidiary from Non-controlling Interest		(1,908,388)	(1,853,723)
Acquisition of Property, Plant, Equipment and Intangible Assets		(21,383,865)	(24,109,656)
		(23,292,253)	(35,447,367)
Cash Flows from/(Used in) Financing Activities			
Cash Proceeds from Issuance of Capital Stock	7	1,319,125	858,339
Net Cash Proceeds from (repayment of) Bank Borrowing		(3,528,585)	30,156,059
Dividends Paid to Non-controlling Minority Interest Holders		–	(2,305,000)
Dividends Paid to Shareholders		(8,974,400)	(8,880,353)
		(11,183,860)	19,829,045
Increase in Cash and Cash Equivalents		3,557,315	1,086,265
Cash and Cash Equivalents Beginning of Year		4,023,010	2,936,745
Cash and Cash Equivalents End of Year		$ 7,580,325	$ 4,023,010
Supplementary Cash Flow Information			
Cash Interest Received		$ 5,639	$ 2,010
Cash Interest Paid		$ 2,152,333	$ 1,706,988

The accompanying notes are an integral part of these Consolidated Financial Statements.

1 SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements, as at and for the year ending 31 December 2013, have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada that are applicable to a going concern, which assumes that the Company will continue to operate for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of operations. The Company's financial statements are presented in Bermuda Dollars, which are on par with US Dollars. The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting policies are as follows:

a Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its controlled subsidiaries, Bermuda Electric Light Company Limited (BELCO), Bermuda Gas & Utility Company Limited and AG Holdings Limited. All material intercompany accounts and transactions are eliminated on consolidation.

b Sales

The sales of electricity are based on consumption recorded by meter readings taken monthly during the year. As in previous years, no account has been taken of unread consumption at the end of the financial year. Sales of propane gas and appliances are recognised upon delivery to customers. Sales of appliance parts sold over the counter are recognised at time of sale, and service sales are recognised at the time the service project is completed. Sales from contracts are provided for using the percentage of completion method. Maintenance sales are earned over the term of the individual contracts. The unearned portion, calculated on a pro-rata basis, is deferred and included in the balance sheet as unearned revenue. Where revenues recognised on long-term contracts based on the percentage completion method exceed the amount billed to date, unbilled revenue is recorded.

c Property, Plant and Equipment

Property, Plant and Equipment are recorded at cost. Interest cost on funds borrowed for the construction of certain long-term assets has been capitalised. The capitalised interest is recorded as part of the asset to which it relates, and is depreciated over the estimated useful life of the asset.

Depreciation of Property, Plant and Equipment is calculated on a straight-line basis. The calculation of depreciation is based on the cost of each group of assets from the actual date that they are brought into service.

d Cash and Cash Equivalents

Cash and cash equivalents include cash on account and short-term, highly liquid investments with maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash, and which are subject to insignificant risk of change in value. No significant interest rate risk is associated with cash and cash equivalents held as at 31 December 2013 and 2012.

e Inventory

Inventory is comprised of materials and supplies, as well as fuel and lubricants. Materials and supplies are recorded at the lower of average cost, less provision for obsolescence and net realisable value. Fuel and lubricants are recorded at cost on a first-in, first-out basis.

f Foreign Currency Translation

Monetary assets and liabilities have been translated into Bermuda Dollars at rates of exchange that approximate those rates prevailing at the Company's year end. Transactions in foreign currencies during the year have been recorded at actual rates of exchange when incurred. Gains or losses arising on foreign currency translations are included in earnings for the year.

g Basic and Fully Diluted Earnings per Share

Basic and fully diluted earnings per share are calculated by dividing net earnings by the weighted average number of common shares outstanding during the year.

h Pensions and Employee Future Benefits

BELCO maintained a trusteed, non-contributory, Defined Benefit Pension Plan (DB Plan), covering all full-time employees hired prior to 1 January 2006. The DB Plan provided a pension benefit to members equal to a percentage of an employee's average salary prior to retirement. The percentage benefit is based upon an employee's years of service up to a maximum benefit of 65%, while the average salary is calculated as the average earnings over a consecutive three-year period in the 10 years immediately prior to retirement. As at 31 December 2011, BELCO imposed a "soft" freeze of the DB Plan. Under the terms of this "soft" freeze, the percentage benefit was frozen, however, the pensionable earnings benefit to which the fixed percentage will be applied will continue to be calculated as previously noted. Effective 1 January 2012, all employees covered under this plan were transitioned to a Defined Contribution Plan. The cost of pension benefits earned by employees under the DB Plan is determined using the projected benefits method, prorated on service. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The accrued benefit asset is included in prepaid expenses. Annual changes in net assets or obligations arising from changes in assumptions, plan amendments and transitional amounts are amortised over the expected average remaining service life of the employees covered by the plan. The excess of net experience gains or losses over 10% of the greater of the benefit obligation and the fair value of plan assets is amortised over the average remaining service period of active employees. BELCO's net benefit plan expense is included in Operating and Administration expenses.

The Company maintains a Defined Contribution Plan for all employees. Contributions to the Defined Contribution Plan are expensed as incurred.

BELCO and Bermuda Gas provide post-retirement medical benefits for substantially all employees on retirement. The Company uses the accrual basis of accounting for these benefits, whereby an accrual is made for the present value of future benefits to be provided in the reporting period in which the employee has provided the related service. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are not recognised, unless the cumulative unrecognised gain or loss at the end of the previous reporting period exceeds the greater of 10% of the plan assets or liabilities.

i Intangibles

The Company classifies goodwill and computer software as intangibles. The Company no longer records amortisation on goodwill. Goodwill is tested for impairment on an annual basis, or more frequently if impairment indicators arise, using the discounted cash flow valuation method. As at 31 December 2013 and 2012, there was no impairment of the Company's goodwill. Computer software is amortised on a straight-line basis over periods ranging from five to ten years. Software in progress is not subject to amortisation until brought into service.

j Financial Instruments

The Company classifies short-term investments, included in cash and cash equivalents, as held for trading, which are measured at fair value with gains and losses recognised in the statement of earnings. Financial assets and liabilities, other than those held for trading, are measured at amortised cost, and amortisation is calculated using the effective interest rate method.

The carrying values of cash and cash equivalents, accounts receivable, bank borrowings, customer deposits, trade and other payables approximate their fair value because of their short-term maturities.

2 FUTURE ACCOUNTING AND REPORTING CHANGES

In February 2008, the Canadian Institute of Chartered Accountants announced that Canadian generally accepted accounting principles for publicly accountable enterprises would be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after 1 January 2011. However, for companies preparing to adopt IFRS for the first time, it was unclear whether regulatory assets or liabilities currently on their balance sheets could continue to be recognised.

However, beginning in 2010, the Canadian Accounting Standards Board (AcSB) decided over the course of several years to allow the deferral of mandatory conversion to IFRS for qualifying rate-regulated entities. A qualifying entity is an entity that has activities subject to rate regulation, as well as the parent company of such an entity, if the parent company is publicly traded.

Ascendant Group is a qualifying entity and, in line with the decisions taken by most other qualifying entities that are also adopting IFRS for the first time, management took the deferral option provided by the AcSB since 2010 to defer the adoption of IFRS until there was resolution on rate-regulated balances presently accounted for as deferred assets or liabilities.

In January 2014, the International Accounting Standards Board (IASB) issued IFRS 14, "Regulatory Deferral Accounts", an interim standard on the accounting for certain balances arising from rate-regulated activities. IFRS 14 is applicable to the Company as a first-time adopter of IFRS and permits it to continue to apply its current accounting policy (refer to Note 3) for the recognition, measurement, impairment and derecognition of regulatory deferral accounts on adoption of IFRS. IFRS 14 is effective from 1 January 2016, however, early adoption is permitted. The IASB's broader, comprehensive Rate-Regulated Activities project, started in 2012 to develop an IFRS on rate-regulated activities, remains ongoing.

After review of IFRS 14 and careful consideration, management has decided that it will proceed with its transition to IFRS, effective 1 January 2015.

3 FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

In accordance with Bermuda's Energy Act 2009, BELCO is required to submit all requests for changes in basic customer tariff rates to the Bermuda Government's Energy Commission for review and either approval or denial. Included in the basic customer tariff rates is an amount required to recover the first $30.00 per barrel of fuel used to generate electricity. BELCO recovers the excess of total fuel costs above $30.00 per barrel from its customers through the fuel adjustment charge, which is also subject to prior approval by the Energy Commission. Any shortfall or over-recovery in the fuel adjustment recovery is included in accounts receivable. As at 31 December 2013, the fuel adjustment over-recovery was $1,204,446 (2012: $1,106,336 fuel adjustment under-recovery).

4 PROPERTY, PLANT AND EQUIPMENT

	ORIGINAL COST	ACCUMULATED DEPRECIATION	2013 NET BOOK VALUE	2012 NET BOOK VALUE
Generation Plant	$ 340,603,548	$ (220,783,074)	$ 119,820,474	$ 121,762,452
Transmission Equipment	78,762,256	(42,701,000)	36,061,256	38,917,122
Distribution Equipment	193,791,419	(111,584,701)	82,206,718	78,500,374
General Plant	67,179,060	(48,914,596)	18,264,464	20,229,985
Other Physical Property	35,009,027	(9,487,134)	25,521,893	25,893,156
	$ 715,345,310	$ (433,470,505)	$ 281,874,805	$ 285,303,089

Total capital work in progress (CWIP) of $11,134,806 (2012: $26,603,068) is embedded in fixed assets noted above. CWIP is not subject to depreciation until brought into service.

Freehold land of $15,184,983 (2012: $15,184,983) is included in fixed assets noted above. Freehold land is not subject to depreciation.

5 INTANGIBLE ASSETS

	GOODWILL	SOFTWARE IN PROGRESS	SOFTWARE	TOTAL VALUE
YEAR ENDED 31 DECEMBER 2012				
Opening net book amount	$ 718,006	$ 1,884,539	$ 3,836,548	$ 6,439,093
Transfers	–	(2,293,613)	2,293,613	–
Acquisitions	6,914,976	1,575,970	135,802	8,626,748
Disposals	–	–	(273,732)	(273,732)
Amortisation	–	(13,755)	(616,181)	(629,936)
Closing net book amount	$ 7,632,982	$ 1,153,141	$ 5,376,050	$ 14,162,173
AT 31 DECEMBER 2012				
Cost	$ 8,033,656	$ 1,166,896	$ 13,371,488	$ 22,572,040
Accumulated Amortisation	(400,674)	(13,755)	(7,995,438)	(8,409,867)
Net book amount	$ 7,632,982	$ 1,153,141	$ 5,376,050	$ 14,162,173
YEAR ENDED 31 DECEMBER 2013				
Opening net book amount	$ 7,632,982	$ 1,153,141	$ 5,376,050	$ 14,162,173
Transfers	–	(1,130,216)	1,130,769	553
Acquisitions	–	30,567	925,507	956,074
Disposals	–	–	(242,412)	(242,412)
Amortisation	–	(18,340)	(989,132)	(1,007,472)
Closing net book amount	$ 7,632,982	$ 35,152	$ $6,200,782	$ 13,868,916
AT 31 DECEMBER 2013				
Cost	$ 8,033,656	$ 85,587	$ 15,184,798	$ 23,304,041
Accumulated Amortisation	(400,674)	(50,435)	(8,984,016)	(9,435,125)
Net book amount	$ 7,632,982	$ 35,152	$ 6,200,782	$ 13,868,916

There was no impairment of intangible assets for the years ended 31 December 2013 and 2012. During the year ended 31 December 2013, $956,074 (2012: $1,711,772) of intangible assets, subject to amortisation, were acquired.

6 INVENTORY

During the year, the Company expensed inventory totalling $141,991,360 (2012: $152,134,093) as part of normal operations. Inventory written off during the year totalled $335,857 (2012: $397,319). Inventory is comprised as follows:

	2013	2012
Materials and Supplies	$ 36,331,046	$ 36,270,690
Fuel and Lubricants	36,367,725	32,862,525
	$ 72,698,771	$ 69,133,215

7 CAPITAL STOCK

	2013	2012
Capital stock comprises:		
Authorised – 20 million shares of a par value of $1 each (2012: 20 million par value $1)	$ 20,000,000	$ 20,000,000
Issued and fully paid – 10,638,061 shares of a par value of $1 each (2012: 10,517,712 par value $1)	$ 10,638,061	$ 10,517,712

A total of 50,231 shares (2012: 38,849) were purchased by active and retired employees under an Employee Purchase Scheme in 2013 at an average price per share of $10.17 (2012: $11.30), giving rise to an increase in share premium of $460,510 (2012: $400,128). Directors received a total of 13,795 shares during the year (2012: 13,247) as part of total Directors' fee compensation, giving rise to an increase in share premium of $147,580 (2012: $147,847). The average price of the shares issued to Directors in 2013 was $11.70 (2012: $12.16). A total of 56,323 (2012: 19,567) shares were issued to employees during the year in recognition of long service, retirement and accomplishment, giving rise to an increase in share premium of $590,686 (2012: $238,701). A total of 41,200 shares were held as treasury shares, as at 31 December 2013 (2012: 41,200).

8 NON-CONTROLLING INTEREST AND JOINT VENTURE

Joint Venture – iFM

iFM is a joint venture company that is 60% owned by the Company, and 40% owned by a Bermuda-registered, exempted subsidiary of B&M. B&M, a privately held Canadian company, is a leading electrical, mechanical and facilities maintenance management contractor operating across Canada, the United States and Bermuda. iFM brings together these strategic partners from Bermuda and Canada to deliver world-class facilities management services to clients in Bermuda.

iFM has been accounted for in the Company's financial statements, using the proportionate consolidation method in accordance with the shareholder agreement.

Non-controlling Interest – Investment in Air Care

On 30 May 2012, the Company acquired 7,114 shares representing a 57% interest in Air Care, a privately held, primarily employee-owned company that is a leading provider of heating, ventilation and air conditioning and related services in Bermuda. The acquisition was debt financed through a revolving loan facility of $15.5 million from The Bank of N.T. Butterfield & Son Limited. The revolving loan facility is the obligation of Air Care. The remaining 5,338 shares, or 43% interest, was agreed to be acquired from minority shareholders in three annual tranches on anniversary date 1 August, beginning in 2012, based on an outlined earnings before interest, depreciation and amortisation formula. On 6 September 2012, in accordance with the acquisition agreement, a further 14% interest in Air Care was acquired, bringing the total interest in Air Care held by the Company, as at 31 December 2012, to approximately 71%. On 1 August 2013, a further 14% interest in Air Care was acquired, bringing the total interest in Air Care held by the Company, as at 31 December 2013, to approximately 85%. Contingent consideration for future payment of the remaining 15% has been recognised as a liability. The outstanding redemption liability at 31 December 2013 was $2,509,081 (2012: $4,968,169). The portion of the purchase price paid to acquire Air Care that was in excess of its net assets has been recognised as goodwill and is included in intangible assets.

9 BANK BORROWING

Bank borrowing is comprised as follows:

	2013	2012
Current Liabilities		
The Bank of N.T. Butterfield & Son Limited overdraft facility	$ 29,839,636	$ 34,476,610

BELCO's overdraft facility with The Bank of N.T. Butterfield & Son Limited (the Bank), which expires on 28 February 2015, has a maximum amount of $55 million in Bermuda Dollars, bearing variable interest rates based on the Bank's Bermuda Dollar base rate on borrowings. The original limit for the facility was $40 million, however, on 24 October 2012, on 28 February 2013 and on 28 February 2014, increases of $5 million were requested and approved by the Company's Board. As of 31 December 2013, total drawdown on this facility amounted to $29,839,636, bearing interest of approximately 4.8% (2012: $34.5 million, bearing interest of approximately 4.8%).

	2013	2012
Non-current Liabilities		
The Bank of N.T. Butterfield & Son Limited revolving loan facility	$ 12,359,198	$ 11,250,809

In May 2012, the Company obtained, through one of its affiliated companies, a revolving loan facility in the maximum principal amount of $15.5 million from the Bank to finance the acquisition of Air Care. Drawdowns are available during a revolving period of 39 months, a period during which interest only is payable. The loan is for a term of eight years and interest is payable at 1.5% per annum above the Bank's Bermuda Dollar base rate. The loan is secured by a debenture over the assets of Air Care and undertakings, as well as a guarantee from Ascendant Group. As of 31 December 2013, a total of $12,359,198 had been drawn down against the facility.

On 31 July 2013, Bermuda Gas renewed its overdraft facility agreement with the Bank. The facility, which expires on 31 July 2014, has a maximum principal amount of $750,000 (2012: $1.5 million). As at 31 December 2013, there was no drawdown on this facility.

10 CAPITAL MANAGEMENT

The Company includes capitalisation, bank borrowing and cash and cash equivalents in the definition of capital as follows:

	2013	2012
Capitalisation	$ 325,712,727	$ 327,911,176
Bank Borrowing	42,198,834	45,727,419
Cash and Cash Equivalents	(7,580,325)	(4,023,010)
	$ 360,331,236	$ 369,615,585

The Company's objectives, when managing capital, are to maintain sufficient liquidity and ongoing access to capital in order to allow the Company to build and maintain its operational infrastructure and administrative systems. The Company's short-term capital management strategy is to generate and utilise positive cash flows from operations to meet annual capital expenditure and dividend payment requirements. Where a shortfall exists between internally generated cash inflows and required cash outflows, short-term debt financing will be utilised. The Company currently utilises a bank overdraft facility to address fuel financing, small-scale renovation work and other requirements. The Company's long-term strategic capital management plan considers all alternative financing options available to address large-scale plant generation expansion or replacement, and transmission and distribution projects.

11 PENSIONS AND POST-RETIREMENT MEDICAL BENEFITS

BELCO maintained a trusteed, non-contributory DB Plan, covering all full-time employees hired before 1 January 2006. Effective 1 January 2012, all full-time BELCO employees covered under this plan have been transitioned to a Defined Contribution Plan, as the DB Plan was frozen as at 31 December 2011. Total employer contributions paid to the Defined Contribution Pension Plan during the year by entity are as follows:

	2013	2012
Ascendant Group	$ 247,841	$ 18,250
BELCO	1,096,457	1,007,690
Bermuda Gas	145,983	152,836
AG Holdings	404,044	179,286
	$ 1,894,325	$ 1,358,062

The following table provides summaries of the pension and post-retirement medical benefit plans' estimated financial position as of 31 December:

	PENSION BENEFIT PLAN		MEDICAL BENEFIT PLAN	
	2013	2012	2013	2012
Accrued benefit obligation				
Balance – Beginning of year	$ 165,112,800	$ 144,152,800	$ 35,138,956	$ 26,314,483
Current service cost	–	–	981,886	1,041,557
Interest cost	7,110,800	7,380,200	1,847,960	1,322,873
Plan amendments and net actuarial (gain)/loss	(767,600)	20,735,500	1,479,782	8,368,361
Benefits paid	(7,006,000)	(7,155,700)	(1,664,196)	(1,908,318)
Balance – End of year	$ 164,450,000	$ 165,112,800	$ 37,784,388	$ 35,138,956
Plan assets				
Fair value – Beginning of year	$ 134,045,100	$ 121,985,800	–	–
Actual gain on plan assets	7,330,900	10,079,000	–	–
Employer contributions	10,504,000	9,136,000	–	–
Benefits paid	(7,006,000)	(7,155,700)	–	–
Fair value – End of year	$ 144,874,000	$ 134,045,100	–	–
Funded status – plan (deficit)	$ (19,576,000)	$ (31,067,700)	$ (37,784,388)	$ (35,138,956)
Unamortised net actuarial loss	43,103,400	47,208,200	23,742,451	23,601,867
Unamortised transitional asset	(1,878,400)	(2,359,900)	–	–
Accrued benefit asset (liability)	$ 21,649,000	$ 13,780,600	$ (14,041,937)	$ (11,537,089)

The significant actuarial assumptions in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions, as at 31 December):

	PENSION BENEFIT PLAN		MEDICAL BENEFIT PLAN	
	2013 %	2012 %	2013 %	2012 %
Discount rate	4.10	4.40	5.20	4.40
Expected rate of return on plan assets	4.60	4.50	–	–
Rate of compensation increase	3.00	3.00	–	–

For measurement purposes, the annual rate of increase in the per capita cost of covered healthcare benefits was assumed to be 8% for 2013 and, thereafter, reducing 1% per year until reaching 5% after three years. In 2011, it was assumed to be 11% for 2012 and, thereafter, reducing 1% per year until reaching 5%.

The discount rate used by the Company's actuary in determining the accrued pension and medical benefit obligations is, in the opinion of management, consistent with market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of the expected benefit payments.

The Company's net benefit plan expense is as follows:

	PENSION BENEFIT PLAN		MEDICAL BENEFIT PLAN	
	2013	2012	2013	2012
Current service cost	$ –	$ –	$ 981,886	$ 1,041,557
Interest cost	7,110,800	7,380,200	1,847,960	1,322,873
Actual gain on plan assets	(7,330,900)	(10,079,000)	–	–
Actuarial (gain)/loss on accrued benefit obligation	(767,600)	20,735,500	1,479,782	8,368,361
Pension (gain)/loss before adjustment to recognise the long-term nature of the plans	(987,700)	18,036,700	4,309,628	10,732,791
Difference between expected and actual return on assets	1,220,200	2,700,400	–	–
Difference between actuarial gain (loss) recognised and actual actuarial loss on benefit obligation	2,884,600	(19,681,400)	(1,479,782)	(8,368,361)
Amortisation of transitional asset	(481,500)	(481,500)	–	–
Adjustments to recognise the long-term nature of the plans	3,623,300	(17,464,500)	(1,479,782)	(8,368,361)
	$ 2,635,600	$ 574,200	$ 2,829,846	$ 2,364,430

12 LONG-TERM INCENTIVE PLAN

Effective 1 January 2013, the Company implemented a long-term incentive plan aimed at retaining the services of its officers. This incentive plan, which expires on 1 January 2016, is a performance award comprising shares of the Company, the value of which is calculated as a percentage of each officer's salary, and is based on the achievement of pre-determined objectives. Shares awarded under the long-term incentive plan vest and become unrestricted at the expiry date. The total cost of the long-term incentive plan for 2013 was $350,000 (2012: NIL).

13 COMMITMENTS

The Company has an arrangement with fuel suppliers to ensure adequate fuel will be available when needed for its electrical generation requirements. Commitments under these contracts to acquire heavy fuel in 2014, as at 31 December 2013, totalled US$2,698,200 (BD$2,735,183). There were no commitments under these contracts to acquire heavy fuel in 2013, as at 31 December 2012.

The Company entered into a five-year engine parts and service contract, effective 1 January 2014, with MAN Diesel & Turbo at a price of €1,095,000 plus US$467,790.

14 SEGMENTED INFORMATION (IN 000s)

Management has identified its reportable segments based on the different products and services that the operating companies offer.

	ELECTRIC 2013	2012	ALL OTHER 2013	2012	TOTAL 2013	2012
Total Revenues from External Customers	$ 240,401	$ 251,422	$ 26,939	$ 39,366	$ 267,340	$ 290,788
Intersegment Revenues	50	51	787	358	837	409
Interest Revenue	5	1	38	8	43	9
Interest Expense	166	123	627	600	793	723
Amortisation of Capital Assets	23,778	23,443	1,345	1,035	25,123	24,478
Segment Profit	5,481	13,160	(592)	(1,629)	4,889	11,531
Segment Assets	377,403	379,421	43,790	34,600	421,193	414,021
Expenditures for Segment Capital Assets	19,933	23,039	1,451	1,071	21,384	24,110

Revenues from segments below the quantitative thresholds are attributable to seven operating segments of Ascendant Group. Those segments include propane supply, property holding, renewable energy supply, corporate services, facilities management, space conditioning and engineering consulting services companies. The accounting policies of the segments are the same as those described in Note 1, Significant Accounting Policies. Reconciliation of segment revenues to total Company revenues is noted below.

	2013	2012
Total Revenues for Reportable Segments	$ 267,340	$ 290,788
Cost of Goods Sold and Discounts	(17,782)	(27,467)
Total Company Revenues	$ 249,558	$ 263,321

15 FINANCIAL ASSETS AND LIABILITIES

The Company manages its exposure to credit, liquidity, market (including foreign exchange, interest rate, and commodity) and other risks in accordance with established risk management policies and procedures. The Company's financial instruments and their designations are (i) held for trading: cash and cash equivalents; (ii) receivables: accounts receivable, less provision; and, (iii) current liabilities: bank borrowing, customer deposits, trade and other payables.

Credit Risk: There is a concentration of credit risk as all Company cash is held with two Bermuda-based banks. There is further credit risk as the Company may not be able to collect all of its customer accounts receivable that arise in the normal course of business, but this does not represent a significant concentration of credit risk as amounts are owed by a large number of customers on normal credit terms. The requirement for security deposits for certain customers, which are advance cash collections from customers to guarantee payment of electricity billings, further reduces the exposure to credit risk. The maximum exposure to credit risk is the net carrying value of these financial instruments. The Company manages credit risk primarily by executing its credit and collection policy, including the requirement for security deposits, through the resources of its Customer Care Department. The aging of trade receivables is as follows:

	2013	2012
Not past due	$ 14,364,014	$ 15,953,235
Past due 31- 60 days	2,666,371	2,962,764
Past due 61- 90 days	1,091,253	1,147,908
Past due over 90 days	8,674,288	6,802,814
	26,795,926	26,866,721
Less: allowance for doubtful accounts	(6,000,788)	(5,228,955)
Less: allowance for discounts	(475,772)	(543,736)
	20,319,366	21,094,030
Fuel adjustment (over) under-recovery	(1,204,446)	1,106,336
Other receivables	2,454,773	2,319,562
	$ 21,569,693	$ 24,519,928

Liquidity Risk: The Company's financial position could be adversely affected, if it failed to arrange sufficient and cost-effective financing to fund, amongst other things, capital and operating expenditures, repayment of bank debt and pension funding obligations. 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 and general economic conditions. The Company manages short-term liquidity risk primarily by maintaining overdraft facilities totalling $55.75 million with The Bank of N.T. Butterfield & Son Limited (refer to Note 9).

Market Risk: Exposure to foreign exchange rate fluctuations is immaterial as all receivables and payables are generally settled within a month. The Company is also exposed to limited commodity price risk (refer to Note 13). Market-driven changes in interest rates and changes in the Company's credit rating can cause fluctuations in interest costs associated with the Company's bank credit facilities. The Company periodically refinances its credit facilities in the normal course of business.

The Company's DB Plan is impacted by economic conditions. There is no assurance that the pension plan assets will earn the expected long-term rate of return in the future. 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 expected long-term return on the assets. This may cause material changes in future pension liabilities and pension expense. Market-driven changes impacting the discount rate may also result in material variations in future pension liabilities and pension expense.

Carrying Values: Cash is carried at fair value. Short-term investments are designated as held for trading and are carried at fair value. The carrying value of receivables and current liabilities is amortised cost.

Fair Values: The fair value of short-term investments is determined through reference to the last trade price of third-party stocks held and listed on the Bermuda Stock Exchange. The fair value of the Company's remaining financial instruments approximates their carrying value, reflecting either their nature or normal trade credit terms.

Other Risks: As at 31 December 2013, the fair value of the Company's primary DB Plan assets was $144,874,000, compared to fair value of plan assets of $134,045,000, as at 31 December 2012 (refer to Note 11). The increase in the fair value of pension plan assets during 2013 was due mainly to improved market conditions in 2013, as compared to 2012. The Company does not expect any difficulty in its ability to meet future pension funding requirements, as it expects the amounts will be financed from a combination of cash generated from operations and amounts available for borrowing under BELCO's existing bank credit facility.

16 CONTINGENT LIABILITY

In 2012, the Company implemented work management system, MAXIMO, acquired from IBM World Trade Corporation (IBM). A dispute currently exists between the Company's subsidiary, BELCO, and IBM concerning the number of end-user licences acquired to utilise this system.

The maximum exposure to the Company associated with this dispute is US$708,145. This matter has been carefully reviewed by both management and the Company's General Counsel who, together, have determined that, as at 31 December 2013, a provision for US$500,000 is warranted, as it is highly probable this dispute will be resolved with IBM in the coming year for this amount.

17 OVER-BILLED METERED SALES LIABILITY

The Company's subsidiary, BELCO, conducted an audit during 2013 of both demand and commercial customer meter installations to determine the accuracy and completeness of metered sales from these customer groups. The audit's findings revealed:

- A number of customers had not been billed, as meter installation connections were not entered into the Company's billing system (customers were subsequently notified and related sales receivables recovered); and
- A number of customers had been either over- or under-billed due to various meter connection issues.

As a result of these findings, the Company implemented the following policies:

- In those instances where a customer has been over-billed, and the amount can be determined, the Company will seek to credit the customer's account for the error; and
- In those instances where a customer has been under-billed, and there is no evidence to indicate that the customer has made any changes to the metering equipment, the Company would not seek recovery of any unbilled amounts from the customer. In the event the Company determines that there have been inappropriate changes to its metering equipment, every effort will be made to collect all amounts due from the customer.

Based on 2013 actual over-bill findings and management's best estimate of further potential liability associated with over-billing of other demand and commercial class customers whose meters have not yet been reviewed, and BELCO's newly established policy, the Company has accrued a total liability of $2,363,000, as at 31 December 2013, and reduced sales by that same amount.

18 CHANGES TO PRIOR-YEAR PRESENTATION

Certain prior-year figures on the consolidated balance sheet, consolidated statement of earnings, consolidated statement of retained earnings and accompanying notes have been reclassified to conform to current-year presentation.

FIVE-YEAR SUMMARY: 2009 – 2013

	2013	2012	2011	2010	2009
Net Earnings (BD$)	4,888,760	11,531,364	11,121,270	16,021,283	19,506,881
Basic and Fully Diluted Earnings per Share of Common Stock (BD$)	0.39	1.07	1.07	1.88	1.54
Dividends Paid per Share (BD$)	0.85	0.85	0.85	0.85	0.85
Book value per Share (BD$)	30.62	31.18	31.45	31.28	31.05
Price / Earnings ratio (P/E RATIO)	26.28	11.24	12.39	7.95	9.77
Dividend Payout ratio	2.18	0.79	0.79	0.45	0.55
Total Assets (BD$)	421,192,963	414,020,567	400,689,213	383,123,964	377,161,649
Return on Assets	1.16%	2.79%	2.78%	4.18%	5.17%
Shareholder Equity (BD$)	325,712,727	327,911,176	328,577,851	325,892,229	321,079,790
Return on Equity	1.50 %	3.52%	3.38%	4.92%	6.08%
Debt / Equity ratio	29.31%	26.26%	21.95%	17.56%	17.47%
Market Capitalisation (BD$)	109,040,125	126,528,075	138,514,610	155,733,567	156,239,378
Share Closing Price (BD$)	10.25	12.03	13.26	14.95	15.05
Number of Shareholders	3,178	3,041	3,048	3,044	3,145
Total Employees	454	436	376	400	406
Donations & Financial Assistance (BD$)	666,824	531,301	467,651	346,307	444,865

ASCENDANT GROUP **BOARD OF DIRECTORS**

1 **S. Reginald Minors,** A.M.I.M.I.
Chairman of the Board
Director since 1995 ***(retiring June 2014)***
President & Chief Executive Officer,
Tools & Equipment Unlimited Ltd.

2 **Peter C. Durhager**
Deputy Chairman
Director since 2003
Executive Vice President &
Chief Administrative Officer,
RenaissanceRe Holdings Ltd.

3 **Walter M. Higgins**
Director since 2012
President & Chief Executive Officer,
Ascendant Group and BELCO

4 **Gavin R. Arton,** M.B.A.
Director since 2000
Retired, Senior Vice President,
XL Capital Ltd.

5 **James B. Butterfield**
Director since 1993
Managing Director, Butterfield & Vallis

6 **A. David Dodwell,** J.P.
Director since 1988
President, The Reefs

7 **L.A. Joaquin,** J.P., F.C.A.
Director since 2005
Retired, Managing Partner,
Ernst & Young Bermuda

8 **A. Shaun Morris**
Director since 2013
General Counsel & Group Chief Legal Officer
The Bank of N.T. Butterfield & Son Limited

9 **Donna L. Pearman,** J.P.
Director since 2008
President, People's Pharmacy Limited

10 **Michael L. Schrum**
Director since 2013
Chief Financial Officer,
HSBC Bank Bermuda Limited

11 **Richard Spurling**
Director since 1993
Retired, Senior Partner, Appleby

12 **Dr. Wilbert N.E. Warner,**
F.R.C.P.(C), D.A.C.P.
Director since 1999
Specialist Consultant, Internal Medicine

13 **W. Edward Williams**
Director since 1993
Sales Representative,
Coldwell Banker (Bermuda Realty)

14 **Alasdair Younie**
Director since 2013
Director, ICM Limited

COMMITTEES

	EXECUTIVE	FINANCE	HUMAN RESOURCES & COMPENSATION	AUDIT & RISK	GOVERNANCE	CORPORATE RESPONSIBILTY
S. Reginald Minors	**▲**	▲			▲	▲
Peter C. Durhager	▲	**▲**			▲	
Walter M. Higgins	▲					
Gavin R. Arton	▲	▲	**▲**			
James B. Butterfield			▲	▲		
A. David Dodwell				▲		▲
L.A. Joaquin	▲			**▲**	▲	
A. Shaun Morris			▲		▲	
Donna L. Pearman				▲		▲
Michael L. Schrum		▲		▲		
Richard Spurling	▲			▲	**▲**	
Dr. Wilbert N.E. Warner	▲		▲			**▲**
W. Edward Williams		▲			▲	
Alasdair Younie		▲		▲		

▲ *Chairman of Committee*

ASCENDANT GROUP **EXECUTIVE**

1 **Walter M. Higgins**
President & Chief Executive Officer, Ascendant Group and BELCO

In June 2012, Walt moved to Bermuda to join Ascendant Group after a lifelong career in the US energy industry. He retired in 2007 as President & CEO, and in 2008 as Chairman of NVEnergy in Nevada, and is Lead Independent Director of South Jersey Industries in New Jersey, as well as a Director of Bermuda-based AEGIS Insurance Services. He graduated from the US Naval Academy with a degree in nuclear science and served 29 years in the US Naval Reserve.

2 **Michael D. Daniel,**
C.Eng, M.I.E.T., A.M.I.Mech.E
Senior Vice President, Ascendant Group
President & Chief Operating Officer, AG Holdings

Over the past three years, Michael has helped advance Ascendant Group's diversification as a key member of the executive team that launched AG Holdings, iFM and iEPC Limited. He joined the Company as a BELCO Apprentice in 1989, and has held leadership roles in BELCO Energy Delivery, Engineering, Environment and Occupational Health & Safety.

3 **Denton E. Williams,** M.I.E.T., M.I.E.E.E.
Senior Vice President, Ascendant Group & Chief Operating Officer, BELCO

Denton joined BELCO as an Apprentice in 1989, using the opportunity to earn technical certification and then an engineering degree. He was named Manager of Plant Operations and Maintenance in 2009, and played a key role in the design and construction of BELCO's state-of-the-art C. Eugene Cox Operations Centre.

4 **Judith Uddin**
General Manager &
Chief Operating Officer,
Bermuda Gas

In 2009, Judith brought her experience to Bermuda Gas as Assistant Financial Controller, having had a successful career as an entrepreneur in the restaurant business. She was promoted to Bermuda Gas General Manager in autumn 2011 and Chief Operating Officer in 2012.

5 **Christopher A. Coelho,** C.A.
Senior Vice President &
Chief Financial Officer, Ascendant Group

Chris joined the Company in 2009, having spent more than 20 years working in the Island's highly competitive international insurance business sector. He brings to Ascendant Group broad experience in finance, management and accounting.

6 **Cheryl-Ann Mapp,** LL.B.
General Counsel, Corporate Secretary,
Ascendant Group

Cheryl, who joined the Company in 2012, has served as Crown Counsel in the Attorney General's Chambers, Magistrate, Bermuda Government advisor and Senior Legal Counsel to the Bermuda Monetary Authority. Her career has included experience within litigation, trusts, corporate, regulation and compliance practice areas within the public and private sectors as a member of the Bermuda Bar.

7 **Robert B. Steynor,** C. Eng.
Senior Vice President, BELCO Fuel,
Logistics, Environment & Safety

A member of the executive team since 2003, Robert has served as Senior Vice President of BELCO Energy Supply, Engineering and Operations, including Energy Delivery.
He is currently responsible for the Company's strategic Fuel, Logistics and Supply Chain processes, as well as Safety, Health and Environment. Robert, who joined BELCO in 1983, is an experienced leader who heads a critical area of the organisation.

8 **Linda C. Smith**
Senior Vice President,
Corporate Relations, Ascendant Group

Linda, who has been a member of the executive team since 2003, was a journalist before joining BELCO in 1989. She established the Company's Corporate Communications department, which today includes internal and external communications, community relations and data management, media relations, advertising and special events.

CORPORATE INFORMATION

ASCENDANT GROUP LIMITED

Publicly traded investment holding company for energy and infrastructure services

HEAD OFFICE
27 Serpentine Road,
Pembroke HM 07, Bermuda

MAILING ADDRESS
P.O. Box HM 3392,
Hamilton HM PX, Bermuda

TEL: 441.298.6100 FAX: 441.292.8975
E-MAIL: info@ascendant.bm
WEBSITE: www.ascendant.bm

Walter M. Higgins
President & Chief Executive Officer

BERMUDA ELECTRIC LIGHT COMPANY LIMITED

Electric utility services

OFFICE
27 Serpentine Road,
Pembroke HM 07, Bermuda

MAILING ADDRESS
P.O. Box HM 1026,
Hamilton HM DX, Bermuda

TEL: 441.295.5111 FAX: 441.292.8975
E-MAIL: info@belco.bm
WEBSITE: www.belco.bm

Walter M. Higgins
President & Chief Executive Officer

Denton E. Williams
Senior Vice President
& Chief Operating Officer

BERMUDA GAS & UTILITY COMPANY LIMITED

Distributor of propane gas, energy-efficient appliances, parts, repair, maintenance services

OFFICE & SHOWROOM
25 Serpentine Road,
Pembroke HM 07, Bermuda

MAILING ADDRESS
P.O. Box HM 373,
Hamilton HM BX, Bermuda

TEL: 441.295.3111 FAX: 441.295.8311
E-MAIL: info@bermudagas.bm
WEBSITE: www.bermudagas.bm

Judith Uddin
General Manager
& Chief Operating Officer

AG HOLDINGS LIMITED

Non-utility energy and infrastructure investment holding company

OFFICE
27 Serpentine Road,
Pembroke HM 07, Bermuda

MAILING ADDRESS
P.O. Box HM 3392,
Hamilton HM PX, Bermuda

TEL: 441.298.6100 FAX: 441.292.8975
E-MAIL: info@ascendant.bm
WEBSITE: www.ascendant.bm

Michael D. Daniel
President & Chief Operating Officer

AIR CARE LIMITED*

HVAC, air quality monitoring, building automation and energy management, commercial plumbing, fire protection and commercial refrigeration services

OFFICE & SHOWROOM
7 Mill Creek Road,
Pembroke HM 05, Bermuda

MAILING ADDRESS
P.O. Box HM 1750,
Hamilton HM GX, Bermuda

TEL: 441.292.7342 FAX: 441.295.1656
E-MAIL: info@aircare.bm
WEBSITE: www.aircare.bm

ASCENDANT PROPERTIES LIMITED

Property management company

IFM LIMITED**

Property and facilities management services

TEL: 441.298.6200 FAX: 441.295.2577
WEBSITE: www.ifm.bm

IEPC LIMITED

Engineering procurement, contracting and consulting

TEL: 441.298.6155 FAX: 441.295.2577
WEBSITE: www.ascendant.bm

PURENERGY RENEWABLES, LTD.

Renewable energy solutions

TEL: 441.299.2808 FAX: 441.295.2577
E-MAIL: info@purenergy.bm
WEBSITE: www.purenergy.bm

* Majority interest acquired in May 2012

** Jointly owned with Black & McDonald Limited

CORPORATE OFFICERS

Walter M. Higgins
President & Chief Executive Officer,
Ascendant Group & BELCO

Denton E. Williams
Senior Vice President and
Chief Operating Officer, BELCO

Michael D. Daniel
Senior Vice President and
President & Chief Operating Officer,
AG Holdings

Judith Uddin
General Manager &
Chief Operating Officer,
Bermuda Gas

Christopher A. Coelho
Senior Vice President &
Chief Financial Officer

Cheryl-Ann Mapp
Corporate Secretary
& General Counsel

Linda C. Smith
Senior Vice President

Robert B. Steynor
Senior Vice President

OFFICERS

ASCENDANT GROUP

S. Abayomi Carmichael
Treasury, Risk Management & Analysis

David Faries
Group Controller

Caroline Rance
Information Technology

Carol Ross-DeSilva
Internal Audit & Process Improvement

Jocene Wade-Harmon
Human Resources

BELCO

Ian Maule
Energy Supply

Dennis Pimental
Energy Delivery

Roger L. Todd
Engineering & System Reliability

AG HOLDINGS

Adam Hawley
iFM

Michael Maughan
Engineering & Technical Support

Robert Platt
Air Care

Ascendant Group's corporate headquarters and operating companies are located in Pembroke, one of Bermuda's nine parishes. Bermuda is a U.K. Overseas Territory, situated in the Atlantic Ocean approximately 700 miles off the United States' East Coast. The Island is home to some 60,000 people, living on 22 square miles. Its capital city is Hamilton, a thriving international business centre that is among the world's leading insurance-industry hubs. The Island's historic town of St. George is a UNESCO World Heritage Site. Bermuda is known for its natural beauty, and Ascendant Group is pleased to contribute to protecting the country's natural heritage by supporting Conservation Services' work on Nonsuch Island, often referred to as Bermuda's "living museum".

SHAREHOLDER INFORMATION

INVESTOR SERVICES

Tel: 441.295.5111, Ext. 1213
E-mail: info@ascendant.bm

ASCENDANT GROUP ORDINARY SHARES

RANGE	RECORD	COUNT
BALANCES AT 31 DECEMBER 2013		
01: Up to 100	969	41,535
02: 101 to 500	998	242,349
03: 501 to 1,000	404	299,946
04: 1,001 to 5,000	550	1,311,134
05: 5,001 to 10,000	110	801,244
06: 10,001 to 100,000	134	3,282,771
07: 100,001 to 1,000,000	13	4,424,502
	3,178	10,638,061

ASCENDANT GROUP ORDINARY SHARES

At 31 December 2013, the Directors of the Company held 70,562 shares; the Officers of the Company held 77,555 shares. Companies that held greater than 5% of the shares are Harcourt Account 1380430 with 1,000,000, Lawrie (Bermuda) Limited with 700,000 and Argus Investment Nominees Limited with 1,000,000.

No rights to subscribe for shares in Ascendant Group have been granted to or executed by any Director or Officer.

There are no contracts of significance subsisting during or at the end of the financial year in which a Director was materially interested either directly or indirectly.

EXCHANGE LISTING

Ascendant Group's shares (AGL.BH) are listed on the Bermuda Stock Exchange (BSX).

BERMUDA STOCK EXCHANGE

P.O. Box HM 1369
Hamilton HM FX
Bermuda

TEL: 441.292.7212
WEBSITE: www.bsx.com

We encourage Ascendant Group shareholders to help us increase efficiency, while reducing expenditure and paper usage by electing to receive materials electronically.

SAVE TIME, MONEY & TREES

To sign up for electronic receipt of Direct Deposit of Dividend notification and Six-Month Reports, Annual Reports and Proxy Materials, send a message to info@ascendant.bm or download the Electronic Election Form at www.ascendant.bm

To sign up for Direct Deposit of Dividends, send a message to info@ascendant.bm or download the Dividend Direct Deposit Form at www.ascendant.bm

SCAN. VISIT.

CHOOSE ELECTRONIC

BANKERS

HSBC Bank Bermuda Limited
Hamilton, Bermuda

The Bank of N.T. Butterfield & Son Limited
Hamilton, Bermuda

AUDITORS

PricewaterhouseCoopers Ltd.
Hamilton, Bermuda

LEGAL COUNSEL

Cheryl-Ann Mapp, LL.B.
Corporate Secretary & General Counsel

ECO-FRIENDLY PRODUCTION

In producing this Annual Report we have chosen production methods that aim to minimise the impact on our environment. Printed using soy-based litho inks on paper made of virgin fiber sourced from sustainable and well-managed forests. Paper stock is FSC certified; mill where the paper was produced is certified in accordance with ISO 14001 and EMAS environmental guidelines. Bleaching process is Elemental Chlorine free.

THE USE OF THIS PAPER MEANS:

16% less wood used
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STEPHEN V. RAYNOR

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ISLAND PRESS LIMITED

ASCENDANT
group

**ASCENDANT
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