

JULIET SHIPPING CO LTD  
Form F-3/A  
July 01, 2009

As filed with the Securities and Exchange Commission on July 1, 2009

Registration No. 333-159218

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## AMENDMENT NO. 2

TO

FORM F-3

REGISTRATION STATEMENT

*UNDER*

*THE SECURITIES ACT OF 1933*

# TSAKOS ENERGY NAVIGATION LIMITED

\*And the Guarantors listed in the Table of Additional Registrants

(Exact Name of Registrant as Specified in its Charter)

Not Applicable

(Translation of Registrant's Name into English)

**Bermuda**  
(State or other Jurisdiction of  
Incorporation or Organization)

**Not Required**  
(I.R.S. Employer  
Identification No.)

**367 SYNGROU AVENUE**

**175 64 P. FALIRO**

**ATHENS, GREECE**

**011 30 210 9407710**

**(Address and telephone number of Registrant's principal executive offices)**

**FRANCIS T. NUSSPICKEL**

**463 GEORGE PLACE**

**WYCKOFF, NEW JERSEY 07481**

**(201) 891-2754**

**(Name, address and telephone number of agent for service)**

*Copies to:*

**STEPHEN P. FARRELL**

**MORGAN, LEWIS & BOCKIUS LLP**

**101 PARK AVENUE**

**NEW YORK, NEW YORK 10178**

**(212) 309-6000**

**Approximate Date of Commencement of Proposed Sale of the Securities to the Public:** From time to time after the effective date of this Registration Statement, as determined by market conditions.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. "

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. "

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**TABLE OF ADDITIONAL REGISTRANTS\***

<b>Company</b>	<b>Country of Incorporation</b>
Oak Shipping Co. Ltd.	Liberia
Avra Trading Co. Ltd.	Liberia
Romeo Shipping Company Limited	Liberia
Figaro Shipping Company Limited	Liberia
Juliet Shipping Company Limited	Liberia
Rigoletto Shipping Company Limited	Liberia
Grevia Marine Co. Ltd.	Cyprus
Azimuth Shipping Company Ltd.	Liberia
Bosphorus Shipping Co. Ltd.	Liberia
Oceana Shipping Company Ltd.	Liberia
Fortitude Shipping Co. Ltd.	Malta
Klera Navigation Co. Ltd.	Cyprus
Freeport Dominion S.A.	Panama
Freeport Faith S.A.	Panama
Ergo Glory S.A.	Panama
World Excellence S.A.	Panama
Apollo Honour S.A.	Panama
Apollo Glory S.A.	Panama
Apollo Excellence S.A.	Panama
Activity Excellence S.A.	Panama
Worldwide Overseas S.A.	Panama
Sea Mentor S.A.	Panama
Sea Polar S.A.	Panama
Fortune Faith S.A.	Panama
Victory Faith S.A.	Panama
Victory Spirit S.A.	Panama
Victory Mare S.A.	Panama
Universal Reserve S.A.	Panama
Sea Countess S.A.	Panama
Global Triumph S.A.	Panama
Fairsea Enterprises S.A.	Panama
Freeport Champion S.A.	Panama
Prosperity Faith S.A.	Panama
Prosperity Success S.A.	Panama
Mercury Emerald S.A.	Panama
Powerful Shipping S.A.	Panama
Sea Optima S.A.	Panama
Shipping Celebrity S.A.	Panama
Southport Marine S.A.	Panama
Southport Maritime S.A.	Panama
Sea Pioneer S.A.	Panama
Sea Celebrity S.A.	Panama
Gladiator Shipping Services S.A.	Panama
Southport Navigation S.A.	Panama

Triton Success S.A.	Panama
Triton Triumph S.A.	Panama
Optima Maritime S.A.	Panama
Optima United S.A.	Panama
Bayswater Trading Co. Ltd.	Liberia
Kerry Trading Company Limited	Liberia
Mare Success S.A.	Panama

\* Addresses and telephone numbers for each of the Additional Registrants are the same as those of Tsakos Energy Navigation Limited. I.R.S. Employer Identification Numbers are not required for the Additional Registrants.

**The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**Explanatory Note**

The sole purpose of this Amendment No. 2 to the Registration Statement on Form F-3 is to amend the exhibit index, to file revised Exhibits 5.1 and 5.3 to the Registration Statement and to revise the first line of Part II, Item 10 of the Registration Statement to state that each registrant is furnishing the undertakings therein. No other changes have been made to the Registration Statement. Accordingly, the amendment consists only of the facing page, this explanatory note and Part II of this Registration Statement.

**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****EXPENSES**

The following table sets forth the expenses (other than underwriting discounts and commissions or agency fees and other items constituting underwriters' or agents' compensation, if any) expected to be incurred by us in connection with a possible offering of \$100.0 million of the securities registered under this registration statement. All amounts other than the SEC registration fee and FINRA filing fee are estimates.

SEC Registration Fee (1)	\$ 33,023
Printing and Engraving Expenses	125,000
Legal Fees and Expenses	250,000
Accountants' Fees and Expenses	150,000
FINRA Filing Fee	10,500
Trustees' fees and expenses	10,000
Miscellaneous Costs	71,477
Total	\$ 650,000

(1) Previously paid

**ITEM 8. INDEMNIFICATION OF DIRECTORS AND OFFICERS**

The Company's By-laws provide that its directors and officers and former directors and officers shall be indemnified to the fullest extent permitted by The Companies Act of Bermuda 1981, as amended, from time to time, and provides for advances to any indemnified director or officer of expenses in connection with actual proceedings and claims arising out of their status as our director or officer. The Company also maintains a directors' and officers' liability insurance policy on behalf of its directors and officers.



**ITEM 9. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
1.1	Form of underwriting agreement (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.1	Form of senior indenture between Tsakos Energy Navigation Limited and Wells Fargo Bank Minnesota, National Association, as trustee, with respect to the senior debt securities of Tsakos Energy Navigation Limited.*
4.2	Form of subordinated indenture between Tsakos Energy Navigation Limited and Wells Fargo Bank Minnesota, National Association, as trustee, with respect to the subordinated debt securities of Tsakos Energy Navigation Limited.*
4.3	Common Share Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form F-1 (Registration No. 333-82326)).
4.4	Form of warrant agreement (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.5	Form of senior debt security of Tsakos Energy Navigation Limited (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.6	Form of subordinated debt security of Tsakos Energy Navigation Limited (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.7	Specimen preferred share certificate (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.8	Certificate of Designations (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.9	Form of Guarantee for senior debt securities (included in Exhibit 4.1).
4.10	Form of Guarantee for subordinated debt securities (included in Exhibit 4.2).
4.11	Form of warrant (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.12	Rights Agreement, dated as of September 29, 2005, between Tsakos Energy Navigation Limited and The Bank of New York, as Rights Agent (filed as an exhibit to the Registrant's Form 6-K dated September 30, 2005, and incorporated by reference herein).
4.13	Form of Deposit Agreement (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
5.1	Opinion of Mello Jones & Martin (Bermuda counsel to the Company) (filed herewith).
5.2	Opinion of Morgan, Lewis & Bockius LLP (United States counsel to the Company).**

- 5.3 Opinion of Seward & Kissel LLP (Liberian counsel to the Company) (filed herewith).
- 5.4 Opinion of Morgan & Morgan (Panamanian counsel to the Company).\*\*
- 5.5 Opinion of Fenech & Fenech (Maltese counsel to the Company).\*\*
- 5.6 Opinion of Montanios and Montanios (Cypriot counsel to the Company).\*\*
- 12.1 Statement regarding computation of ratio of earnings to fixed charges.\*\*
- 23.1 Consent of Independent Registered Public Accounting Firm.\*\*
- 23.2 Consent of Mello Jones & Martin (included in Exhibit 5.1).
- 23.3 Consent of Morgan, Lewis & Bockius LLP (included in Exhibit 5.2).
- 23.4 Consent of Seward & Kissel LLP (included in Exhibit 5.3).
- 23.5 Consent of Morgan & Morgan (included in Exhibit 5.4).
- 23.6 Consent of Fenech & Fenech (included in Exhibit 5.5).
- 23.7 Consent of Montanios & Montanios (included in Exhibit 5.6).
- 24.1 Powers of Attorney\*\*
- 25.1 Form T-1 statement of eligibility and qualification under the Trust Indenture Act of 1939 (a Form T-1) of Wells Fargo Bank, National Association (successor by merger to Wells Fargo Bank Minnesota, National Association) with respect to the senior debt securities.\*\*
- 25.2 Form T-1 statement of eligibility and qualification under the Trust Indenture Act of 1939 (a Form T-1) of Wells Fargo Bank, National Association (successor by merger to Wells Fargo Bank Minnesota, National Association) with respect to the subordinated debt securities.\*\*

\* Previously filed as an exhibit to the company's Registration Statement on Form F-3 (Registration No. 333- 110495) filed with the SEC on November 14, 2003 and hereby incorporated by reference.

\*\* Previously filed.

#### **ITEM 10. UNDERTAKINGS**

Each undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate,

represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information set forth in the registration statement;

*provided, however,* that paragraphs (1)(i), (1)(ii) and (1)(iii) do not apply if the registration statement is on Form F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrants pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in this registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, as amended, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) To file a post-effective amendment to the registration statement to include any financial statements required by Item 8.A of Form 20-F at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) of the Securities Act need not be furnished, provided, that the registrants include in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph (4) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements. Notwithstanding the foregoing, with respect to registration statements on Form F-3, a post-effective amendment need not be filed to include financial statements and information required by Section 10(a)(3) of the Securities Act or Rule 3-19 of Regulation S-X if such financial statements and information are contained in periodic reports filed with or furnished to the Commission by the registrants pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in this Form F-3.

(5) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) Each prospectus filed by each registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(ii) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of

the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in this registration statement or a prospectus that is part of this registration statement or made in a document incorporated or deemed incorporated by reference into this registration statement or a prospectus that is part of this registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in this registration statement or a prospectus that was part of this registration statement or made in any such document immediately prior to such effective date; or

(6) That, for the purpose of determining liability of a registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrants undertake that in a primary offering of securities of an undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrants will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of an undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of an undersigned registrant or used or referred to by an undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about an undersigned registrant or its securities provided by or on behalf of an undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by an undersigned registrant to the purchaser.

The undersigned registrants hereby undertake that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

Each undersigned registrant hereby undertakes to supplement the prospectus, after the expiration of the subscription period, to set forth the results of the subscription offer, the transactions by the underwriters during the subscription period, the amount of unsubscribed securities to be purchased by the underwriters, and the terms of any subsequent reoffering thereof. If any public offering by the underwriters is to be made on terms differing from those set forth on the cover page of the prospectus, a post-effective amendment will be filed to set forth the terms of such offering.

The undersigned registrants hereby undertake to file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of Section 310 of the Trust Indenture Act of 1939 in accordance with the rules and regulations prescribed by the Commission under Section 305(b)(2) of the Trust Indenture Act of 1939.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of each of the registrants pursuant to the provisions set forth or described in Item 8 of this registration statement, or otherwise, each registrant has

been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by a registrant of expenses incurred or paid by a director, officer or controlling person of such registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, each registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933, as amended, and will be governed by the final adjudication of such issue.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

TSAKOS ENERGY NAVIGATION LIMITED

By: /s/ Nikolas P. Tsakos  
 Name: Nikolas P. Tsakos  
 Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities indicated.

Signature	Title	Date
* D. John Stavropoulos	Chairman of the Board  of Directors	July 1, 2009
/s/ Nikolas P. Tsakos Nikolas P. Tsakos	President, Chief Executive Officer and Director  (principal executive officer)	July 1, 2009
* George V. Saroglou	Chief Operating Officer  and Director	July 1, 2009
/s/ Paul Durham Paul Durham	Chief Financial Officer  (principal financial and accounting officer)	July 1, 2009
* Michael G. Jolliffe	Deputy Chairman of the Board of Directors	July 1, 2009

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* Peter C. Nicholson	Director	July 1, 2009
* Francis T. Nusspickel	Director	July 1, 2009
* William A. O Neil	Director	July 1, 2009
* Richard L. Paniguan	Director	July 1, 2009
* Aristides A.N. Patrinos	Director	July 1, 2009

\* By: /s/ Nikolas P. Tsakos  
Name: Nikolas P. Tsakos  
Title: Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director



**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

OAK SHIPPING COMPANY LTD.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Secretary and Director	July 1, 2009
* Athanasios Korveis	Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

AVRA TRADING CO. LTD.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Secretary and Director	July 1, 2009
* Athanasios Korvesis	Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\*By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

**ROMEO SHIPPING COMPANY LIMITED**

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Secretary and Director	July 1, 2009
* Athanasios Korveis	Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

FIGARO SHIPPING COMPANY LIMITED

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Secretary and Director	July 1, 2009
* Athanasios Korvesis	Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director



**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

JULIET SHIPPING COMPANY LIMITED

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Secretary and Director	July 1, 2009
* Athanasios Korveis	Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

**RIGOLETTO SHIPPING COMPANY LIMITED**

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Secretary and Director	July 1, 2009
* Athanasios Korveis	Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

GREVIA MARINE CO. LTD.

By: /s/ Nikolas P. Tsakos  
Name: Nikolas P. Tsakos  
Title: Director

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Nikolas P. Tsakos Nikolas P. Tsakos	Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Director  (principal financial and accounting officer)	July 1, 2009

\*By: /s/ Nikolas P. Tsakos  
Nikolas P. Tsakos  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

AZIMUTH SHIPPING COMPANY LTD.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Secretary and Director	July 1, 2009
* Athanasios Korveis	Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director



**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

BOSPHORUS SHIPPING CO. LTD.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Secretary and Director	July 1, 2009
* Athanasios Korveis	Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

OCEANA SHIPPING COMPANY LTD.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Secretary and Director	July 1, 2009
* Athanasios Korvesis	Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

FORTITUDE SHIPPING CO. LTD.

By: /s/ Dimitris Bertolis  
Name: Dimitris Bertolis  
Title: Director

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following person in his capacity and on the date indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Dimitris Bertolis Dimitris Bertolis	Director  (principal executive, financial and accounting officer)	July 1, 2009

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

KLERA NAVIGATION CO. LTD.

By: /s/ Nikolas P. Tsakos  
Name: Nikolas P. Tsakos  
Title: Director

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Nikolas P. Tsakos Nikolas P. Tsakos	Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ Nikolas P. Tsakos  
Nikolas P. Tsakos  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director



**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

FREEPORT DOMINION S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

---

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

FREEPORT FAITH S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

ERGO GLORY S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\*By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

WORLD EXCELLENCE S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director



**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

APOLLO HONOUR S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

APOLLO GLORY S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

APOLLO EXCELLENCE S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

ACTIVITY EXCELLENCE S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director



**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

WORLDWIDE OVERSEAS S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

SEA MENTOR S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

---

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

SEA POLAR S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

FORTUNE FAITH S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director



SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

VICTORY FAITH S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

VICTORY SPIRIT S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

VICTORY MARE S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

UNIVERSAL RESERVE S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director



SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

SEA COUNTESS S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

GLOBAL TRIUMPH S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
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\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

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/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

SIGNATURES

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FAIRSEA ENTERPRISES S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
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\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

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/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

SIGNATURES

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FREEPORT CHAMPION S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
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\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

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/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director



SIGNATURES

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PROSPERITY FAITH S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
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\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

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/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

PROSPERITY SUCCESS S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
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George V. Saroglou  
Attorney-in-Fact

AUTHORIZED UNITED STATES REPRESENTATIVE

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/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

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MERCURY EMERALD S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
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\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

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/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

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POWERFUL SHIPPING S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
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George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

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/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director



SIGNATURES

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SEA OPTIMA S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
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\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

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/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

SHIPPING CELEBRITY S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
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* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

SOUTHPORT MARINE S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
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* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

SOUTHPORT MARITIME S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
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* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

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/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director



**SIGNATURES**

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SEA PIONEER S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

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/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

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SEA CELEBRITY S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

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/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
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George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

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/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

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GLADIATOR SHIPPING SERVICES S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

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**SIGNATURES**

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SOUTHPORT NAVIGATION S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director



**SIGNATURES**

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TRITON SUCCESS S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
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* Athanasios Korvesis	Secretary, Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

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TRITON TRIUMPH S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
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\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

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/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

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**SIGNATURES**

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OPTIMA MARITIME S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
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* Athanasios Korvesis	Secretary, Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

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/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**SIGNATURES**

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OPTIMA UNITED S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korveis	Secretary, Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director



**SIGNATURES**

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BAYSWATER TRADING CO. LTD.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Secretary and Director	July 1, 2009
* Athanasios Korvesis	Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

KERRY TRADING COMPANY LIMITED

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Dimitris Bertolis	Vice President and Director	July 1, 2009
* Athanasios Korvesis	Secretary, Treasurer and Director  (principal financial and accounting officer)	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Athens, Greece, on July 1, 2009.

MARE SUCCESS S.A.

By: /s/ George V. Saroglou  
Name: George V. Saroglou  
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George V. Saroglou George V. Saroglou	President and Director  (principal executive officer)	July 1, 2009
* Paul Durham	Vice President and Director  (principal financial and accounting officer)	July 1, 2009
* Athanasia Karali	Secretary, Treasurer and Director	July 1, 2009

\* By: /s/ George V. Saroglou  
George V. Saroglou  
Attorney-in-Fact

**AUTHORIZED UNITED STATES REPRESENTATIVE**

Pursuant to the requirement of the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of the aforementioned Registrant, has signed this Registration Statement on July 1, 2009.

/s/ Francis T. Nusspickel  
Name: Francis T. Nusspickel  
Title: Director

**INDEX TO EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
1.1	Form of underwriting agreement (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.1	Form of senior indenture between Tsakos Energy Navigation Limited and Wells Fargo Bank Minnesota, National Association, as trustee, with respect to the senior debt securities of Tsakos Energy Navigation Limited.*
4.2	Form of subordinated indenture between Tsakos Energy Navigation Limited and Wells Fargo Bank Minnesota, National Association, as trustee, with respect to the subordinated debt securities of Tsakos Energy Navigation Limited.*
4.3	Common Share Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form F-1 (Registration No. 333-82326)).
4.4	Form of warrant agreement (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.5	Form of senior debt security of Tsakos Energy Navigation Limited (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.6	Form of subordinated debt security of Tsakos Energy Navigation Limited (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.7	Specimen preferred share certificate (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.8	Certificate of Designations (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.9	Form of Guarantee for senior debt securities (included in Exhibit 4.1).
4.10	Form of Guarantee for subordinated debt securities (included in Exhibit 4.2).
4.11	Form of warrant (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
4.12	Rights Agreement, dated as of September 29, 2005, between Tsakos Energy Navigation Limited and The Bank of New York, as Rights Agent (filed as an exhibit to the Registrant's Form 6-K dated September 30, 2005, and incorporated by reference herein).
4.13	Form of Deposit Agreement (to be filed as an exhibit to a report on Form 6-K and incorporated herein by reference).
5.1	Opinion of Mello Jones & Martin (Bermuda counsel to the Company) (filed herewith).
5.2	Opinion of Morgan, Lewis & Bockius LLP (United States counsel to the Company).**
5.3	Opinion of Seward & Kissel LLP (Liberian counsel to the Company) (filed herewith).

- 5.4 Opinion of Morgan & Morgan (Panamanian counsel to the Company).\*\*
- 5.5 Opinion of Fenech & Fenech (Maltese counsel to the Company).\*\*
- 5.6 Opinion of Montanios and Montanios (Cypriot counsel to the Company).\*\*
- 12.1 Statement regarding computation of ratio of earnings to fixed charges.\*\*
- 23.1 Consent of Independent Registered Public Accounting Firm.\*\*
- 23.2 Consent of Mello Jones & Martin (included in Exhibit 5.1).
- 23.3 Consent of Morgan, Lewis & Bockius LLP (included in Exhibit 5.2).
- 23.4 Consent of Seward & Kissel LLP (included in Exhibit 5.3).
- 23.5 Consent of Morgan & Morgan (included in Exhibit 5.4).
- 23.6 Consent of Fenech & Fenech (included in Exhibit 5.5).
- 23.7 Consent of Montanios & Montanios (included in Exhibit 5.6).
- 24.1 Powers of Attorney\*\*
- 25.1 Form T-1 statement of eligibility and qualification under the Trust Indenture Act of 1939 (a Form T-1) of Wells Fargo Bank, National Association (successor by merger to Wells Fargo Bank Minnesota, National Association) with respect to the senior debt securities.\*\*
- 25.2 Form T-1 statement of eligibility and qualification under the Trust Indenture Act of 1939 (a Form T-1) of Wells Fargo Bank, National Association (successor by merger to Wells Fargo Bank Minnesota, National Association) with respect to the subordinated debt securities.\*\*

\* Previously filed as an exhibit to the company's Registration Statement on Form F-3 (Registration No. 333- 110495) filed with the SEC on November 14, 2003 and hereby incorporated by reference.

\*\* Previously filed.

>

**Total Utility Plant - Net**

**2,650,652** 2,410,077



**Investments and Other Property**

Investments in Lease Debt and Equity

**65,829** 103,844

Other

**32,313** 43,588

**Total Investments and Other Property**

**98,142** 147,432

**Current Assets**

Cash and Cash Equivalents

**27,718** 19,983

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Accounts Receivable - Customer

**71,435** 78,200

Unbilled Accounts Receivable

**32,386** 32,217

Allowance for Doubtful Accounts

**(3,766)** (4,106)

Accounts Receivable - Due from Affiliates

**4,049** 5,444

Fuel Inventory

**32,981** 29,209

Materials and Supplies

**70,749** 54,732

Derivative Instruments

**1,439** 1,318

Regulatory Assets - Current

**71,747** 34,023

Deferred Income Taxes - Current

**21,678** 32,077

Other

**13,753** 26,467

**Total Current Assets**

**344,169** 309,564

**Regulatory and Other Assets**

Regulatory Assets - Noncurrent

**157,386** 182,304

Derivative Instruments

**1,398** 1,834

Other Assets

**23,737** 24,767

**Total Regulatory and Other Assets**

**182,521** 208,905

**Total Assets**

**\$3,275,484** \$3,075,978

See Notes to Consolidated Financial Statements.

**(Consolidated Balance Sheets Continued)**

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**Table of Contents****TUCSON ELECTRIC POWER COMPANY****CONSOLIDATED BALANCE SHEETS**

	September 30, December 31, 2011	September 30, 2010
	- Thousands of Dollars -	
<b>CAPITALIZATION AND OTHER LIABILITIES</b>		
<b>Capitalization</b>		
Common Stock Equity	\$ 824,943	\$ 709,884
Capital Lease Obligations	352,720	429,074
Long-Term Debt	1,080,373	1,003,615
<b>Total Capitalization</b>	<b>2,258,036</b>	<b>2,142,573</b>
<b>Current Liabilities</b>		
Current Obligations Under Capital Leases	77,482	60,309
Borrowing Under Revolving Credit Facility	10,000	-
Accounts Payable - Trade	84,508	77,021
Accounts Payable - Due to Affiliates	4,827	3,990
Interest Accrued	30,877	31,771
Accrued Taxes Other than Income Taxes	32,155	29,873
Accrued Employee Expenses	21,356	23,710
Customer Deposits	23,743	21,191
Derivative Instruments	9,040	7,288
Regulatory Liabilities - Current	23,702	58,936
Other	4,524	3,379
<b>Total Current Liabilities</b>	<b>322,214</b>	<b>317,468</b>
<b>Deferred Credits and Other Liabilities</b>		
Deferred Income Taxes - Noncurrent	263,225	227,615
Regulatory Liabilities - Noncurrent	200,599	170,223
Derivative Instruments	14,142	11,650
Pension and Other Postretirement Benefits	130,660	120,590
Other	86,608	85,859
<b>Total Deferred Credits and Other Liabilities</b>	<b>695,234</b>	<b>615,937</b>
<b>Commitments, Contingencies, and Proposed Environmental Matters (Note 4)</b>		
<b>Total Capitalization and Other Liabilities</b>	<b>\$ 3,275,484</b>	<b>\$ 3,075,978</b>

See Notes to Consolidated Financial Statements.

(Consolidated Balance Sheets Concluded)



**Table of Contents****TUCSON ELECTRIC POWER COMPANY****CONSOLIDATED STATEMENTS OF CAPITALIZATION**

	September 30,	September 30,	September 30,	September 30,
	2011	2010	December 31,	2010
	- Thousands of Dollars -			
<b>COMMON STOCK EQUITY</b>				
Common Stock-No Par Value			\$ 888,971	\$ 858,971
	<b>2011</b>	<b>2010</b>		
Shares Authorized	75,000,000	75,000,000		
Shares Outstanding	32,139,434	32,139,434		
Capital Stock Expense			(6,357)	(6,357)
Accumulated Deficit			(47,627)	(132,961)
Accumulated Other Comprehensive Loss			(10,044)	(9,769)
<b>Total Common Stock Equity</b>			<b>824,943</b>	<b>709,884</b>
<b>PREFERRED STOCK</b>				
No Par Value, 1,000,000 Shares Authorized, None Outstanding				
<b>CAPITAL LEASE OBLIGATIONS</b>				
Springerville Unit 1			253,481	302,229
Springerville Coal Handling Facilities			65,022	76,583
Springerville Common Facilities			111,699	110,571
<b>Total Capital Lease Obligations</b>			<b>430,202</b>	<b>489,383</b>
Less Current Maturities			(77,482)	(60,309)
<b>Total Long-Term Capital Lease Obligations</b>			<b>352,720</b>	<b>429,074</b>
<b>LONG-TERM DEBT</b>				
<b>Issue</b>	<b>Maturity</b>	<b>Interest Rate</b>		
Variable Rate IDBs	2014 - 2016	Variable	215,300	365,300
Unsecured Fixed Rate IDBs	2020 - 2040	3.25% to 6.375%	615,855	638,315
Unsecured Notes	2021	5.15%	249,218	
<b>Total Long-Term Debt</b>			<b>1,080,373</b>	<b>1,003,615</b>
<b>Total Capitalization</b>			<b>\$ 2,258,036</b>	<b>\$ 2,142,573</b>

See Notes to Consolidated Financial Statements.

**Table of Contents****TUCSON ELECTRIC POWER COMPANY****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME**

	September 30, Common Stock	September 30, Capital Stock Expense	September 30, Accumulated Deficit	September 30, Accumulated Other Comprehensive Loss	September 30, Total Stockholder s Equity
- Thousands of Dollars -					
<b>Balances at December 31, 2008</b>	<b>\$ 813,971</b>	<b>\$ (6,357)</b>	<b>\$ (211,146)</b>	<b>\$ (6,855)</b>	<b>\$ 589,613</b>
Comprehensive Income:					
2009 Net Income			90,688		90,688
Unrealized Loss on Cash Flow Hedges (net of \$33 income taxes)				51	51
Reclassification of Realized Losses on Cash Flow Hedges to Net Income (net of \$690 income taxes)				1,053	1,053
Employee Benefit Obligations Amortization of SERP Net Prior Service Cost Included in Net Periodic Benefit Cost (net of \$33 income taxes)				(51)	(51)
<b>Total Comprehensive Income</b>					<b>91,741</b>
Capital Contribution from UniSource Energy	30,000				30,000
Dividends			(60,763)		(60,763)
<b>Balances at December 31, 2009</b>	<b>843,971</b>	<b>(6,357)</b>	<b>(181,221)</b>	<b>(5,802)</b>	<b>650,591</b>
Comprehensive Income:					
2010 Net Income			108,260		108,260
Unrealized Loss on Cash Flow Hedges (net of \$4,216 income taxes)				(6,431)	(6,431)
Reclassification of Realized Losses on Cash Flow Hedges to Net Income (net of \$2,140 income taxes)				3,264	3,264
Employee Benefit Obligations Amortization of SERP Net Prior Service Cost Included in Net Periodic Benefit Cost (net of \$523 income taxes)				(800)	(800)
<b>Total Comprehensive Income</b>					<b>104,293</b>
Capital Contribution from UniSource Energy	15,000				15,000
Dividends Paid			(60,000)		(60,000)
<b>Balances at December 31, 2010</b>	<b>858,971</b>	<b>(6,357)</b>	<b>(132,961)</b>	<b>(9,769)</b>	<b>709,884</b>



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Comprehensive Income:			
2011 Net Income		85,334	85,334
Unrealized Loss on Cash Flow Hedges (net of \$2,331 income taxes)		(3,555)	(3,555)
Reclassification of Realized Losses on Cash Flow Hedges to Net Income (net of \$1,390 income taxes)		2,122	2,122
Employee Benefit Obligations Amortization of SERP Net Prior Service Cost Included in Net Periodic Benefit Cost (net of \$804 income taxes)		1,158	1,158
<b>Total Comprehensive Income</b>			<b>85,059</b>
Capital Contribution from UniSource Energy	30,000		30,000
<b>Balances at December 31, 2011</b>	<b>\$ 888,971</b>	<b>\$ (6,357)</b>	<b>\$ (47,627)</b>
			<b>\$ (10,044)</b>
			<b>\$ 824,943</b>

We describe limitations on our ability to pay dividends in Note 7.

See Notes to Consolidated Financial Statements.

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**UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF OPERATIONS**

UniSource Energy Corporation (UniSource Energy) is a utility services holding company engaged, through its subsidiaries, in the electric generation and energy delivery business. Each of UniSource Energy's subsidiaries is a separate legal entity with its own assets and liabilities. UniSource Energy owns 100% of Tucson Electric Power Company (TEP), UniSource Energy Services, Inc. (UES), Millennium Energy Holdings, Inc. (Millennium), and UniSource Energy Development Company (UED).

TEP is a regulated public utility and UniSource Energy's largest operating subsidiary, representing approximately 82% of UniSource Energy's total assets as of December 31, 2011. TEP generates, transmits and distributes electricity to approximately 404,000 retail electric customers in a 1,155 square mile area in southeastern Arizona. TEP also sells electricity to other utilities and power marketing entities, located primarily in the western U.S. In addition, TEP operates Springerville Unit 3 on behalf of Tri-State Generation and Transmission Association, Inc. (Tri-State) and Springerville Unit 4 on behalf of Salt River Project Agriculture Improvement and Power District (SRP).

UES holds the common stock of two regulated public utilities, UNS Gas, Inc. (UNS Gas) and UNS Electric, Inc. (UNS Electric). UNS Gas is a regulated gas distribution company, which services approximately 148,000 retail customers in Mohave, Yavapai, Coconino, and Navajo counties in northern Arizona, as well as in Santa Cruz County in southern Arizona. UNS Electric is a regulated public utility, which generates, transmits and distributes electricity to approximately 91,000 retail customers in Mohave and Santa Cruz counties.

UED developed the Black Mountain Generating Station (BMGS) in northwestern Arizona. The facility includes two natural gas-fired combustion turbines. Prior to July 2011, UNS Electric received energy from BMGS through a power sales agreement with UED. In July 2011, UNS Electric purchased BMGS from UED, leaving UED with no significant remaining assets. The transaction had no impact on UniSource Energy's consolidated financial statements.

Millennium's investments in unregulated businesses represent less than 1% of UniSource Energy's assets as of December 31, 2011. Millennium's \$13 million net loss for 2010, which reflected impairment losses, caused it to be a reportable segment at December 31, 2010. Millennium is not a reportable segment at December 31, 2011.

Our business is comprised of three reporting segments – TEP, UNS Gas, and UNS Electric.

References to we and our are to UniSource Energy and its subsidiaries, collectively.

**REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS**

In the second and third quarters of 2011, we identified errors related to amounts recorded as owed to or payable by TEP for electricity deliveries settled in-kind or to be settled in-kind during prior years under our transmission, interconnection and certain joint operating agreements. These agreements typically provide that the parties to such agreements will monitor transmission and delivery losses and other energy imbalances and make payments to each other to compensate for any losses and imbalances. Payments for such losses and imbalances are made in-kind with energy (MWh) rather than cash. The amount of these losses and imbalances is typically a very low portion of the energy flows subject to these agreements and is usually settled on a one day or one month lag. We also identified minor errors to prior year amounts billed to third parties for operations and maintenance expense. Separately, in the second quarter of 2011, we identified errors in prior years in the calculation of income tax expense arising from not treating Allowance for Equity Funds Used During Construction (AFUDC) as a permanent book to tax difference.

We assessed the materiality of these errors on prior period financial statements and concluded they were not material to any prior annual or interim periods, but the cumulative impact, if recognized in 2011, could be material to the annual period ending December 31, 2011 and the interim period ended June 30, 2011. As a result, in accordance with Staff Accounting Bulletin 108, we revised our prior period financial statements to correct these



**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

errors. We assessed the materiality of the third quarter 2011 errors, together with the errors identified in the first half of 2011, on prior period financial statements and concluded that, while they were not material to any prior annual or interim periods, we should update the prior revision to reflect all of the errors identified in 2011.

The income tax adjustment affected fiscal years 2003 through 2010 for UniSource Energy and fiscal years 2009 and 2010 for TEP. The adjustment for transmission and delivery losses and energy imbalances settled in-kind or to be settled in-kind affected fiscal years 2004 through 2010. The operations and maintenance expense adjustment affected fiscal years 2006 through 2010. The revision increased UniSource Energy's net income by \$2 million for each of the years ended December 31, 2010 and 2009. The revision increased TEP's net income by \$1 million for each of the years ended December 31, 2010 and 2009. UniSource Energy's Accumulated Earnings increased by \$7 million for the periods prior to January 1, 2009, as a result of the revisions.

The revised amounts include reclassifications to conform to the current year presentation. TEP reclassified Other Operations and Maintenance costs of \$7 million in 2010, and \$6 million in 2009 to Other Expense to correctly account for the regulatory treatment of certain expenses.

The revision and reclassifications impacted statements of income and balance sheets as shown in the tables below:

	September 30, UniSource Energy		September 30, TEP	
	Year Ended December 31, 2010			
	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars- (Except Per Share Amounts)			
<b>Income Statement</b>				
Electric Wholesale Sales	\$ 151,673	\$ 151,962	\$ 140,815	\$ 141,103
Fuel	296,980	295,652	286,071	284,744
Purchased Energy	307,288	307,288	118,716	118,716
Decrease to Reflect PPFAC/PGA Recovery Treatment	(31,105)	(29,622)	(23,025)	(21,541)
Other Operations and Maintenance	370,067	370,037	323,537	316,625
Income Tax Expense	78,266	76,921	61,057	59,936
Net Income	111,477	112,984	106,978	108,260
Basic EPS	3.06	3.10	N/A	N/A
Diluted EPS	2.82	2.86	N/A	N/A
<b>Balance Sheet</b>				
Accounts Receivable -Customer	91,556	98,333	71,425	78,200
Deferred Income Taxes - Current Assets	32,386	30,822	33,640	32,077
Regulatory Assets -Noncurrent	196,736	192,966	186,074	182,304
Common Stock Equity	828,368	830,756	707,495	709,884
Accounts Payable -Trade	109,896	108,950	77,967	77,021
Deferred Income Taxes - Noncurrent Liabilities	246,466	246,466	227,615	227,615

**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	September 30, UniSource Energy	September 30, As Revised	September 30, As Reported	September 30, TEP As Revised
	Year Ended December 31, 2009			
	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars- (Except Per Share Amounts)			
<b>Income Statement</b>				
Electric Wholesale Sales	\$ 130,904	\$ 131,255	\$ 152,955	\$ 153,306
Fuel	298,655	296,248	281,710	279,303
Purchased Energy	296,861	296,861	144,528	144,529
Decrease to Reflect PPFAC/PGA Recovery Treatment	(17,091)	(14,553)	(20,724)	(18,186)
Other Operations and Maintenance	333,887	333,579	289,765	282,986
Income Tax Expense	64,348	63,232	55,130	54,220
Net Income	104,258	105,901	89,248	90,688
Basic EPS	2.91	2.95	N/A	N/A
Diluted EPS	2.69	2.73	N/A	N/A

**BASIS OF PRESENTATION**

We consolidate our investments in subsidiaries when we hold a majority of the voting stock and we can exercise control over the operations and policies of the company. Consolidation means accounts of the parent and subsidiary are combined and intercompany balances and transactions are eliminated. Intercompany profits on transactions between regulated entities are not eliminated.

We used the equity and cost methods to report Millennium's investments until the assets became fully impaired in 2010. See Note 13.

**USE OF ACCOUNTING ESTIMATES**

Management makes estimates and assumptions when preparing financial statements under generally accepted accounting principles (GAAP) in the U.S. These estimates and assumptions affect:

Assets and liabilities in our balance sheets at the dates of the financial statements;

Our disclosures about contingent assets and liabilities at the dates of the financial statements; and

Our revenues and expenses in our income statements during the periods presented.

Because these estimates involve judgments based upon our evaluation of relevant facts and circumstances, actual amounts may differ from the estimates.

**ACCOUNTING FOR RATE REGULATION**

We generally use the same accounting policies and practices used by unregulated companies. However, sometimes regulatory accounting requires that rate-regulated companies apply special accounting treatment to show the effect of rate regulation. For example, we capitalize certain costs that would be included as expense in the current period by unregulated companies. Regulatory assets represent incurred costs that have been deferred because they are probable of future recovery in customer Retail Rates. Regulatory liabilities generally represent expected future costs that have already been collected from customers or items that are expected to be returned to customers through billing reductions.

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We evaluate regulatory assets each period and believe recovery is probable. If future recovery of costs ceases to be probable, the assets would be written off as a charge in current period earnings.

We apply regulatory accounting as the following conditions exist:

An independent regulator sets rates;

The regulator sets the rates to recover the specific enterprise's costs of providing service; and

Rates are set at levels that will recover the entity's costs and can be charged to and collected from customers.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CASH AND CASH EQUIVALENTS**

We define Cash and Cash Equivalents as cash (unrestricted demand deposits) and all highly liquid investments purchased with an original maturity of three months or less.

**UTILITY PLANT**

Utility Plant includes the business property and equipment that supports electric and gas services, consisting primarily of generation, transmission and distribution facilities. We report utility plant at original cost. Original cost includes materials and labor, contractor services, construction overhead (where applicable), and an Allowance for Funds Used During Construction (AFUDC).

We record the cost of repairs and maintenance, including planned major overhauls to Other Operations and Maintenance Expense on the income statements as the costs are incurred.

When a unit of regulated property is retired, we reduce accumulated depreciation by the original cost plus removal costs less any salvage value. There is no income statement impact.

**AFUDC and Capitalized Interest**

AFUDC reflects the cost of debt or equity funds used to finance construction and is capitalized as part of the cost of regulated utility plant. AFUDC amounts capitalized are included in rate base for establishing Retail Rates. For operations that do not apply regulatory accounting, we capitalize interest related only to debt as a cost of construction. The interest capitalized that relates to debt reduces Other Interest Expense on the income statements. The cost capitalized for equity funds is recorded as Other Income.

Average AFUDC Rate on Regulated Construction Expenditures	September 30, 2011	September 30, 2010	September 30, 2009
TEP	6.72%	6.65%	6.40%
UNS Gas	8.32%	8.19%	7.05%
UNS Electric	8.18%	8.22%	7.62%

UniSource Energy capitalized interest at a rate of 3.30% for 2011 and 1.96% for 2010 related to the development of a new corporate headquarters.

**Depreciation**

We compute depreciation for owned utility plant on a group method straight-line basis at depreciation rates based on the economic lives of the assets. See Note 5. The ACC approves depreciation rates for all utility plant. TEP transmission assets are subject to FERC jurisdiction. Depreciation rates are based on average useful lives and reflect estimated removal costs, net of estimated salvage value for interim retirements. Below are the summarized average annual depreciation rates for all utility plants.

September 30,      September 30,      September 30,      September 30,

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	<b>TEP</b>	<b>UNS Gas</b>	<b>UNS Electric</b>	<b>UED</b>
2011	3.15%	3.32%	4.31%	3.03%
2010	3.14%	2.83%	4.35%	2.57%
2009	3.64%	2.76%	4.33%	2.57%

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## **Table of Contents**

### **UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

##### **Computer Software Costs**

We capitalize costs incurred to purchase and develop computer software for internal use and amortize those costs over the estimated economic life of the product. If the software is no longer useful, we immediately charge capitalized computer software costs to expense.

##### **TEP Utility Plant under Capital Leases**

TEP financed the following generation assets with capital leases: Springerville Common Facilities, Springerville Unit 1 and the Springerville Coal Handling Facilities. The amount of lease expense incurred for TEP's generation-related capital leases consists of amortization expense, as described in Note 5, and Interest Expense on Capital Leases as reflected on the income statements. The lease terms are described in Note 6.

##### **INVESTMENTS IN LEASE DEBT AND EQUITY**

TEP holds investments in lease debt in TEP's Springerville Unit 1 capital leases. These holdings are considered held-to-maturity investments because TEP has the ability and intent to hold them until maturity. TEP records these investments at amortized cost and recognizes interest income. The fair value of these investments is described in Note 11. These investments do not reduce the capital lease obligations reflected on the balance sheet because there is no legal right of offset. TEP makes lease payments to a trustee who then distributes the payments to debt and equity holders.

TEP accounts for its 14% equity interest in the Springerville Unit 1 lease trust using the equity method.

##### **JOINTLY-OWNED FACILITIES**

TEP has investments in several generation and transmission facilities jointly-owned with other companies. These projects are accounted for on a proportionate consolidation basis. See Note 5.

##### **ASSET RETIREMENT OBLIGATIONS**

TEP and UNS Electric record a liability for the estimated present value of a conditional asset retirement obligation as follows:

When it is able to reasonably estimate the fair value of any future obligation to retire as a result of an existing or enacted law, statute, ordinance or contract; or

If it can reasonably estimate the fair value.

When the liability is initially recorded at net present value, TEP and UNS Electric capitalize the cost by increasing the carrying amount of the related long-lived asset. TEP and UNS Electric adjust the liability to its present value by recognizing accretion expense in Other Operations and Maintenance expense, and the capitalized cost is depreciated in Depreciation and Amortization expense over the useful life of the related asset.

TEP and UNS Electric record cost of removal for generation assets that are recoverable through Retail Rates charged to customers. See Note 2. We record cost of removal for transmission and distribution assets through depreciation rates and recover those amounts in Retail Rates charged to customers. There are no legal obligations associated with these assets. We have recorded an obligation for estimated costs of removal as regulatory liabilities.

##### **EVALUATION OF ASSETS FOR IMPAIRMENT**

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We evaluate long-lived assets and investments for impairment whenever events or circumstances indicate the carrying value of the assets may be impaired. If discounted expected future cash flows are less than the carrying value of the asset, an impairment loss is recognized if the impairment is other than temporary and the loss is not recoverable through rates, and the asset is written down to the fair value of the asset.

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### **UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

##### **DEFERRED FINANCING COSTS**

We defer the costs to issue debt and amortize such costs to interest expense on a straight-line basis over the life of the debt as this approximates the effective interest method. These costs include underwriters' commissions, discounts or premiums, and other costs such as legal, accounting, regulatory fees and printing costs.

We defer and amortize the gains and losses on reacquired debt associated with regulated operations to interest expense over the remaining life of the original debt.

##### **UTILITY OPERATING REVENUES**

We record utility operating revenues when services or commodities are delivered to customers. Operating revenues include an estimate for unbilled revenues from service that has been provided but not billed by the end of an accounting period.

We determine amounts delivered through periodic readings of customer meters. At the end of the month, the usage since the last meter reading is estimated and the corresponding unbilled revenue is calculated. Unbilled revenue is estimated based on daily generation or purchased volumes, estimated customer usage by class, estimated line losses and estimated average customer Retail Rates. Accrued unbilled revenues are reversed the following month when actual billings occur. The accuracy of the unbilled revenue estimate is affected by factors that include fluctuations in energy demands, weather, line losses, customer Retail Rates and changes in the composition of customer classes.

We are authorized a rate-adjustment mechanism that provides for the recovery of actual fuel, transmission and purchased power/energy cost. The revenue surcharge or surcredit adjusts the customers' retail rate for delivered electricity or gas to collect or return under- or over-recovered energy costs. The ACC revises these rate-adjustment mechanisms periodically (annually for TEP and UNS Electric; monthly for UNS Gas) and may increase or decrease the level of costs recovered through Retail Rates for any difference between the total amount collected under the clauses and the recoverable costs incurred. See Note 2.

Arizona's mandatory Renewable Energy Standard (RES) requires TEP and UNS Electric to increase their use of renewable energy and allows recovery of RES compliance costs through a surcharge to customers. We charge customers a Demand Side Management (DSM) surcharge to recover the cost of ACC-approved energy efficiency programs. We defer differences between actual RES or DSM qualified costs incurred and the recovery of such costs through the RES and DSM surcharges. Cost over-recoveries (the excess of cost recoveries through the RES and DSM surcharges over actual qualified costs incurred) are deferred as regulatory liabilities and cost under-recoveries (the excess of actual qualified costs incurred over cost recoveries through the RES and DSM surcharges) are deferred as regulatory assets. The surcharges are reset annually and incorporate an adjustor mechanism that, upon approval of the ACC, allows us to apply any shortage or surplus in the prior year's program expenses to the subsequent year's RES or DSM surcharge. See Note 2.

For contracts that are not settled with energy, TEP nets the sales contracts with the purchase power contracts and reflects the net amount as Electric Wholesale Sales. The corresponding cash receipts are recorded in the statement of cash flows as Cash Receipts from Electric Wholesale Sales, while cash payments are recorded as Purchased Energy Costs Paid.

We record an Allowance for Doubtful Accounts to reduce accounts receivable for amounts estimated to be uncollectible. The allowance is determined based on historical bad debt patterns, retail sales and economic conditions. We refer uncollected accounts to external collection agencies after 90 days.

TEP recognizes revenue from operating Springerville Unit 3 and Unit 4 on behalf of Tri-State and SRP as Other Revenues. Effective with commercial operation of Springerville Unit 3 in July 2006 and Springerville Unit 4 in December 2009, Tri-State and SRP reimburse TEP for various operating costs at the Springerville generating station. Tri-State and SRP also pay TEP for the use of the Springerville Common Facilities and the Springerville Coal Handling Facilities which are recorded as Other Revenues. Operating expenses are recorded in the respective line item of the income statements based on the nature of service or materials provided.



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### **UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **INVENTORY**

Materials and supplies consist of transmission, distribution and generation construction and repair materials. We record fuel, materials and supply inventories at the lower of weighted average cost or market prices. We capitalize handling and procurement costs (such as materials, labor, overhead costs and transportation costs) as part of the cost of the inventory.

#### **RECOVERY OF FUEL AND PURCHASED ENERGY COSTS**

##### **TEP and UNS Electric Purchased Power and Fuel Adjustment Clause (PPFAC)**

TEP and UNS Electric defer differences between actual fuel, transmission and purchased power costs and current PPFAC costs incurred and the recovery of such costs in base rates. Cost over-recoveries (the excess of fuel costs recoveries in Base Rates over actual costs incurred) are deferred as regulatory liabilities and cost under-recoveries (the excess of actual costs incurred over fuel costs recovered in Base Rates) are deferred as regulatory assets. See Note 2.

##### **UNS Gas Purchased Gas Adjustor (PGA)**

UNS Gas defers the difference between actual gas costs incurred and the recovery of such costs under a Purchased Gas Adjustor (PGA) mechanism. Gas cost over-recoveries (the excess of gas costs recovered under the PGA mechanism over actual gas costs incurred) are deferred as regulatory liabilities and under-recoveries (the excess of actual gas costs incurred over gas costs recovered via the PGA mechanism) are deferred as regulatory assets. See Note 2.

#### **RENEWABLE ENERGY CREDITS (RECs)**

The ACC uses Renewable Energy Credits (RECs) to measure compliance with the RES requirements. A REC equals one kWh generated from renewable resources. The cost of REC purchases are qualified renewable expenditures recoverable through the RES surcharge. When TEP or UNS Electric purchase renewable energy, the premium paid above conventional power is the REC cost, a qualified cost recoverable through the RES surcharge, and the remaining cost is recoverable through the PPFAC.

When RECs are purchased, TEP and UNS Electric record the cost of the RECs as Other Assets, and a corresponding regulatory liability, to reflect the obligation to use the RECs for future RES compliance. Unretired RECs are recorded as Other Assets on the balance sheet. RECs are expensed to the income statements when the RECs are reported to the ACC for compliance with the RES requirements. See Note 2.

#### **INCOME TAXES**

Due to the difference between GAAP and income tax laws, many transactions are treated differently for income tax purposes than they are in the financial statements. Temporary differences are accounted for by recording deferred income tax assets and liabilities on our balance sheets. These assets and liabilities are recorded using income tax rates expected to be in effect when the deferred tax assets and liabilities are realized or settled. We record a valuation allowance to reduce deferred tax assets when we believe it is more likely than not that the deferred asset will not be realized.

Tax benefits are recognized in the financial statements when it is more likely than not that a tax position will be sustained upon examination by the tax authorities based on the technical merits of the position. The tax benefit recorded is the largest amount that is more than 50% likely to be realized upon ultimate settlement with the tax authority, assuming full knowledge of the position and all relevant facts. Interest Expense includes interest accrued by UniSource Energy and TEP on tax positions taken on tax returns which have not been reflected in the financial statements.

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### **UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Prior to 1990, TEP flowed through to ratepayers certain accelerated tax benefits related to utility plant as the benefits were recognized on tax returns. Regulatory Assets Noncurrent includes Income Taxes Recoverable Through Future Rates, which reflects the future revenues due us from ratepayers as these tax benefits reverse. See Note 2.

We account for Federal Energy Credits using the grant accounting model. The credit is treated as deferred revenue, which is recognized over the depreciable life of the underlying asset. The deferred tax benefit of the credit is treated as a reduction to income tax expense in the year the credit arises. This benefit is offset by the tax expense attributable to the reduction in tax basis required to be recognized. All other federal and state income tax credits are treated as a reduction to income tax expense in the year the credit arises.

Consolidated income tax liabilities are allocated to subsidiaries based on their taxable income as reported in the consolidated tax return.

#### **TAXES OTHER THAN INCOME TAXES**

We act as conduits or collection agents for sales taxes, utility taxes, franchise fees and regulatory assessments. As we bill customers for these taxes and assessments, we record trade receivables. At the same time, we record liabilities payable to governmental agencies for these taxes and assessments. These amounts are not reflected in the income statements.

#### **DERIVATIVE FINANCIAL INSTRUMENTS**

##### **Risks and Overview**

We are exposed to energy price risk associated with gas and purchased power requirements, volumetric risk associated with seasonal load, and operational risk associated with power plants, transmission and transportation systems. We reduce our energy price risk through a variety of derivative and non-derivative instruments. The objectives for entering into such contracts include: creating price stability; ensuring we can meet load and reserve requirements; and reducing exposure to price volatility that may result from delayed recovery under the PPFAC or PGA. See Note 2.

We consider the effect of counterparty credit risk in determining the fair value of derivative instruments that are in a net asset position after incorporating collateral posted by counterparties and allocate the credit risk adjustment to individual contracts. We also consider the impact of our own credit risk after considering collateral posted on instruments that are in a net liability position and allocate the credit risk adjustment to all individual contracts.

We present cash collateral and derivative assets and liabilities associated with the same counterparty separately in our financial statements, and we bifurcate all derivatives into current and long-term portions on the balance sheet.

##### **Cash Flow Hedges**

TEP hedges the cash flow risk associated with unfavorable changes in the variable interest rates related to the Springerville Common Facilities Lease and variable rate industrial development bonds. In addition, TEP hedges the cash flow risk associated with a six-year power supply agreement using a six-year power purchase swap agreement. UNS Electric entered into a cash flow hedge in August 2011 to fix the UNS Electric term loan variable interest rate. TEP and UNS Electric account for cash flow hedges as follows:

The effective portion of the changes in the fair value of the interest rate swaps and TEP's six-year power purchase swap agreement are recorded in Accumulated Other Comprehensive Income (AOCI) and the ineffective portion, if any, is recognized in earnings; and

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When TEP and UNS Electric determine a contract is no longer effective in offsetting the changes in cash flow of a hedged item, TEP and UNS Electric recognize the changes in fair value in earnings. The unrealized gains and losses at that time remain in AOCI and are reclassified into earnings as the underlying hedged transaction occurs.

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**UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives have been and are expected to remain highly effective in offsetting changes in the cash flows of hedged items. We discontinue hedge accounting when: (1) the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) we determine that designating the derivative as a hedging instrument is no longer appropriate.

**Mark-to-Market**

**TEP**

TEP's hedges, such as forward power purchase contracts indexed to gas, short-term forward power sales contracts, or call and put options (gas collars), that did not qualify for either cash flow hedge accounting treatment or the normal scope exception are considered mark-to-market transactions. TEP hedges a portion of its monthly natural gas exposure for plant fuel, gas-indexed purchased power and spot market purchases with fixed price contracts for a maximum of three years. Unrealized gains and losses are recorded as either a regulatory asset or regulatory liability to the extent they qualify for recovery through the PPFAC.

In 2009 through 2011 we had no trading activity.

**UNS Gas**

UNS Gas enters into derivative contracts such as forward gas purchases and gas swaps, creating price stability and reducing exposure to natural gas price volatility that may result in delayed recovery under the PGA. Unrealized gains and losses are recorded as either a regulatory asset or regulatory liability, as the UNS Gas PGA mechanism permits the recovery of the cost of hedging contracts.

**UNS Electric**

UNS Electric hedges a portion of its purchased power exposure to fixed price and natural gas-indexed contracts with forward power purchases, financial gas swaps, and call and put options. Unrealized gains and losses are recorded as either a regulatory asset or regulatory liability, as the UNS Electric PPFAC mechanism allows recovery of the prudent costs of contracts for hedging fuel and purchased power costs.

**Normal Purchase and Normal Sale**

We enter into forward energy purchase and sales contracts, including call options, to support our current load forecasts, with counterparties for load serving requirements or counterparties with generating capacity. These contracts are not required to be marked-to-market and are accounted for on an accrual basis. We evaluate our counterparties on an ongoing basis for non-performance risk to ensure it does not impact our ability to obtain the normal scope exception.

**PENSION AND OTHER POSTRETIREMENT BENEFITS**

We sponsor noncontributory, defined benefit pension plans for substantially all employees and certain affiliate employees. Benefits are based on employees' years of service and average compensation. We also maintain a Supplemental Executive Retirement Plan for upper management. TEP also provides limited health care and life insurance benefits for retirees.

Pension and other postretirement benefit expense are determined by actuarial valuations, based on assumptions that we evaluate annually. See Note 9.



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**UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 2. REGULATORY MATTERS**

**RATES AND REGULATION**

The ACC and the FERC each regulate portions of the utility accounting practices and rates used by TEP, UNS Gas and UNS Electric. The ACC regulates rates charged to retail customers, the siting of generation and transmission facilities, the issuance of securities, and transactions with affiliated parties. The FERC regulates terms and prices of transmission services and wholesale electricity sales.

**TEP 2008 Rate Order**

The 2008 TEP Rate Order, issued by the ACC and effective December 1, 2008, provided an average base rate increase of 6% over TEP's previous Base Rates; an 8% authorized rate of return on original cost rate base; a fuel rate included in Base Rates of 2.9 cents per kilowatt-hour (kWh); a PPFAC effective January 1, 2009; and a base rate increase moratorium through January 1, 2013.

**2010 UNS Gas Rate Order**

Effective April 2010, the ACC approved a base rate increase of 2% (\$3 million), including an 8% authorized rate of return on original cost rate base.

**Pending UNS Gas Rate Case**

In April 2011, UNS Gas filed a general rate case (on a cost-of-service basis) with the ACC requesting a base rate increase of 3.8% to cover a revenue deficiency of \$5.6 million.

In February 2012, ACC Staff recommended a base rate increase of \$2.7 million as well as a mechanism to enable UNS Gas to recover lost fixed-cost revenues as a result of implementing the ACC's EE Standards. The ACC is expected to issue a final order in the second quarter of 2012.

**2008 UNS Electric Rate Order**

In May 2008, the ACC approved a base rate increase of 2.5% (\$4 million) effective June 2008.

**2010 UNS Electric Rate Order**

In September 2010, the ACC approved a base rate increase of 4% (\$7 million), including an 8% authorized rate of return on original cost rate base, effective October 1, 2010. The ACC approved new depreciation rates effective in October 2010.

In July 2011, UNS Electric completed the ACC and FERC approved purchase of BMGS from UED for \$63 million, UED's book value for the assets. BMGS was included in UNS Electric's rate base through a revenue-neutral rate reclassification of approximately 0.7 cents per kWh from base power supply rate to non-fuel Base Rates.

**COST RECOVERY MECHANISMS**

TEP, UNS Gas and UNS Electric have received regulatory decisions that allow for more timely recovery of certain costs through the following recovery mechanisms.



**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Purchased Power and Fuel Adjustment Clause (PPFAC)**

The PPFAC provides for the adjustment of Retail Rates to reflect variations in retail fuel, transmission and purchased power costs, including demand charges, and the prudent costs of contracts for hedging fuel. TEP and UNS Electric record deferrals for recovery or refund to the extent actual retail fuel, transmission and purchased power costs vary from the fuel rate and current PPFAC rates. The TEP PPFAC became effective in January 2009. A PPFAC rate adjustment is made annually each April 1st (unless otherwise approved by the ACC) and goes into effect for the subsequent 12-month period automatically unless suspended by the ACC. UNS Electric's PPFAC rate adjustment is made annually each June 1st, effective for the subsequent 12-month period.

The PPFAC rate includes (a) a Forward Component, under which TEP and UNS Electric recover or refund differences between forecasted fuel, transmission and purchased power costs for the upcoming calendar year and those embedded in the fuel rate and the current PPFAC rates; (b) a True-up Component, which reconciles differences between actual fuel, transmission and purchased power costs and those recovered through the combination of the fuel rate and the forward component for the preceding 12-month period.

The table below summarizes TEP's and UNS Electric's PPFAC rates in cents per kWh that are compared against actual fuel cost to create regulatory assets or liabilities:

	September 30, June - December	September 30, 2011 April - May	September 30, January - March	September 30, June December	September 30, 2010 April - May	September 30, January - March <sup>(2)</sup>
TEP						
PPFAC	0.53	0.53	0.09	0.09	0.09	0.18
CTC <sup>(1)</sup>	(0.53)	(0.53)	(0.09)	(0.09)	(0.09)	(0.18)
Total PPFAC Rate						
UNS Electric	(0.88)	0.08	0.08	(0.28)	(1.06)	(1.06)

(1) Competition Transition Charge

(2) TEP's first PPFAC rate began April 2009 at 0.18 cents per kWh. UNS Electric's PPFAC rate from January to May 2009 was 1.50 cents per kWh, and the PPFAC rate from June to December 2009 was (1.06) cents per kWh.

As part of the 2008 Rate Order, TEP was required to credit previously collected revenues to customers through the PPFAC. As a result, the PPFAC charge has been zero since it became effective in January 2009. In November 2011, the Fixed CTC revenue was fully refunded to customers and TEP began deferring the PPFAC eligible costs until a new PPFAC rate is approved by the ACC.

The following table shows the changes in TEP's PPFAC related accounts and the impacts on revenue and expense for the year ended December 31, 2011:

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	September 30, Assets (Liability) at December 31, 2011	September 30, 2010	September 30, Year Ended December 31, 2011 Increase to Revenue	September 30, Year Ended December 31, 2011 Reduction to Fuel and Purchased Power Expense
	-Millions of Dollars-			
<b>PPFAC - Fixed CTC Revenue to be Refunded</b> (current and noncurrent)	\$	\$ (36)	\$ 36	
<b>PPFAC</b> (current and noncurrent)	\$ 60	\$ 54		\$ 6

For the year ended December 31, 2010, changes in the deferred PPFAC regulatory asset (liability) resulted in a \$10 million increase to revenue and a \$22 million decrease to fuel and purchased power expense.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****UNS Gas Purchased Gas Adjustor (PGA)**

The PGA mechanism provides for the adjustment of Retail Rates to reflect variations in natural gas costs. UNS Gas records deferrals for recovery or refund to the extent actual natural gas costs vary from the PGA rate. The PGA rate reflects a weighted, rolling average of the gas costs incurred by UNS Gas over the preceding 12 months. The PGA rate automatically adjusts monthly, but it is restricted from rising or falling more than \$0.15 per therm in a twelve-month period. UNS Gas is required to request an additional surcredit if deferral balances reflect \$10 million or more on a billed basis.

The PGA rate ranged from \$0.6593 to \$0.7296 cents per therm in 2011, and ranged from \$0.6433 to \$0.7306 cents per therm in 2010.

**RES and Energy Efficiency Standards**

The ACC has a mandatory RES that requires TEP and UNS Electric to expand their use of renewable energy through efforts funded by customer surcharges. TEP and UNS Electric are required to file five-year implementation plans with the ACC and annually seek approval for the upcoming year's RES funding amount. Similarly, TEP, UNS Gas and UNS Electric recover the cost of ACC-approved energy efficiency programs through DSM surcharges established by the ACC.

The following table shows RES and DSM tariffs collected:

	September 30, TEP RES	September 30, UNS Electric RES	September 30, TEP DSM -Millions of Dollars-	September 30, UNS Gas DSM	September 30, UNS Electric DSM
2011	\$ 35	\$ 7	\$ 11	\$ 1	\$ 2
2010	32	7	10	1	2
2009	29	5	7	1	1

**Renewable Energy Standard**

In 2010, the ACC approved:

A funding mechanism for approximately \$14 million of TEP-owned renewable energy projects in 2010, and approximately \$5 million in UNS Electric owned solar projects per year between 2011 and 2014. TEP's projects were completed in 2010, and TEP began recovering its costs through the RES tariff in January 2011.

TEP's 2011 RES implementation plan. As approved by the plan, TEP invested \$28 million in TEP-owned solar projects in 2011. In 2011, the ACC approved TEP's 2012 RES implementation plan. The plan allows TEP to invest \$28 million in 2012, and \$8 million in 2013 for TEP-owned solar projects.

The funding mechanism allows TEP and UNS Electric to use RES funds to recover operating costs, depreciation, and property taxes and to earn a return on company-owned solar projects until the projects can be incorporated in Base Rates.

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TEP and UNS Electric entered into multiple ACC approved long-term purchase power agreements with companies developing renewable energy generation facilities. TEP and UNS Electric are required to purchase the full output of each facility for 20 years. Both utilities are authorized to recover a portion of the cost of renewable energy through the PPFAC, with the balance of costs recoverable through the RES tariff.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Electric Energy Efficiency Standards**

In 2010, the ACC approved new Electric Energy Efficiency (EE) Standards designed to require TEP and UNS Electric to implement cost-effective Demand Side Management (DSM) programs, effective in 2011. In 2011, the EE Standards targeted total retail kWh savings equal to 1.25% of 2010 sales increasing to 22% by 2020. The EE Standards provide for a DSM surcharge to recover the costs to implement DSM programs.

In January 2012, the ACC granted UNS Electric a waiver from complying with the 2011 and 2012 EE Standards.

The ACC approved new Gas EE Standards which required UNS Gas to implement cost effective DSM programs to reduce total retail therm sales in 2011, by 701,113 therms, or 0.5% of 2010 sales. Targeted savings increase annually in subsequent years until they reach a cumulative annual reduction in retail therm sales of 6% by 2020.

In January 2012, TEP filed a modification to its 2012/2013 Energy Efficiency Implementation Plan with the ACC. The proposal includes a request for an increase in the performance incentive based on TEP's ability to meet the EE targets for 2012 and for 2013. TEP's proposed annual performance incentive in each of 2012 and 2013 ranges from \$6 million to \$8 million.

**Renewable Energy Credits**

The following table shows the REC activity for 2011 and 2010:

	September 30, 2011	September 30, December 31, 2010	September 30, 2011	September 30, December 31, 2010
	UniSource Energy		TEP	
	-Millions of Dollars-			
<b>Beginning Balance, included in Other Assets</b>	\$ 3	\$ 2	\$ 2	\$ 8
RECs Purchased	6	8	5	8
RECs Recovered Through Revenues (RES surcharge)	(8)	(5)	(7)	(6)
<b>Ending Balance, included in Other Assets</b>	\$ 1	\$ 3	\$ 2	\$ 2

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Regulatory Assets and Liabilities**

The following tables summarize regulatory assets and liabilities:

	September 30, TEP	September 30, UNSGas -Millions of Dollars-	September 30, December 31, 2011 UNSElectric	September 30, UniSource Energy
<b>Regulatory Assets Current</b>				
Property Tax Deferrals <sup>(1)</sup>	\$ 16	\$	\$	\$ 16
Derivative Instruments (Notes 11 and 16)	7	7	10	24
Deregulation Costs <sup>(2)</sup>	3			3
PPFAC <sup>(3)</sup>	34		7	41
DSM <sup>(3)</sup>	8		1	9
Other Current Regulatory Assets <sup>(4)</sup>	4			4
<b>Total Regulatory Assets Current</b>	<b>72</b>	<b>7</b>	<b>18</b>	<b>97</b>
<b>Regulatory Assets Noncurrent</b>				
Pension and Other Postretirement Benefits (Note 9)	107	3	4	114
Income Taxes Recoverable through Future Revenues <sup>(5)</sup>	10		2	12
PPFAC/PGA <sup>(3)</sup>	6			6
PPFAC Final Mine Reclamation and Retiree Health Care Costs <sup>(6)</sup>	20			20
Derivative Instruments (Notes 11 and 16)	2	2	3	7
Other Regulatory Assets <sup>(4)</sup>	12	1	1	14
<b>Total Regulatory Assets Noncurrent</b>	<b>157</b>	<b>6</b>	<b>10</b>	<b>173</b>
<b>Regulatory Liabilities Current</b>				
PPFAC/PGA <sup>(7)</sup>		(15)		(15)
RES <sup>(7)</sup>	(22)		(3)	(25)
Other Current Regulatory Liabilities	(2)			(2)
<b>Total Regulatory Liabilities Current</b>	<b>(24)</b>	<b>(15)</b>	<b>(3)</b>	<b>(42)</b>
<b>Regulatory Liabilities Noncurrent</b>				
Net Cost of Removal for Interim Retirements <sup>(8)</sup>	(198)	(23)	(10)	(231)
Other Regulatory Liabilities	(3)	(1)		(4)

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<b>Total Regulatory Liabilities Noncurrent</b>	(201)	(24)	(10)	(235)
<b>Total Net Regulatory Assets (Liabilities)</b>	\$ 4	\$ (26)	\$ 15	\$ (7)

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	September 30,	September 30,	September 30,	September 30,
	TEP	UNSGas	UNSElectric	UniSourceEnergy
	-Millions of Dollars-			
<b>Regulatory Assets Current</b>				
Property Tax Deferrals <sup>(1)</sup>	\$ 16	\$	\$	\$ 16
Derivative Instruments (Notes 11 and 16)	5	8	12	25
Deregulation Costs <sup>(2)</sup>	4			4
PPFAC <sup>(3)</sup>			3	3
DSM <sup>(3)</sup>	5			5
Other Current Regulatory Assets <sup>(4)</sup>	4			4
<b>Total Regulatory Assets Current</b>	<b>34</b>	<b>8</b>	<b>15</b>	<b>57</b>
<b>Regulatory Assets Noncurrent</b>				
Pension and Other Postretirement Benefits (Note 9)	90	2	2	94
Income Taxes Recoverable through Future Revenues <sup>(5)</sup>	22		1	23
PPFAC/PGA <sup>(3)</sup>	37			37
PPFAC Final Mine Reclamation and Retiree Health Care Cost <sup>(6)</sup>	17			17
Deregulation Costs <sup>(2)</sup>	3			3
Derivative Instruments (Notes 11 and 16)		2	2	4
Other Regulatory Assets <sup>(4)</sup>	13	2		15
<b>Total Regulatory Assets Noncurrent</b>	<b>182</b>	<b>6</b>	<b>5</b>	<b>193</b>
<b>Regulatory Liabilities Current</b>				
PPFAC/PGA <sup>(7)</sup>		(9)		(9)
PPFAC Fixed CTC Revenue to be Refunded <sup>(7)</sup>	(36)			(36)
RES <sup>(7)</sup>	(22)		(1)	(23)
Other Current Regulatory Liabilities	(1)			(1)
<b>Total Regulatory Liabilities Current</b>	<b>(59)</b>	<b>(9)</b>	<b>(1)</b>	<b>(69)</b>
<b>Regulatory Liabilities Noncurrent</b>				
Net Cost of Removal for Interim Retirements <sup>(8)</sup>	(169)	(22)	(9)	(200)
Other Regulatory Liabilities	(1)			(1)
<b>Total Regulatory Liabilities Noncurrent</b>	<b>(170)</b>	<b>(22)</b>	<b>(9)</b>	<b>(201)</b>
<b>Total Net Regulatory Assets (Liabilities)</b>	<b>\$ (13)</b>	<b>\$ (17)</b>	<b>\$ 10</b>	<b>\$ (20)</b>

Regulatory assets are either being collected in Retail Rates or are expected to be collected through Retail Rates in a future period. We describe regulatory assets and state when we earn a return below:

- (1) Property Tax is recovered over an approximately six-month period as costs are paid, rather than as costs are accrued.
- (2) Deregulation costs represent deferred expenses that TEP incurred to comply with various ACC deregulation orders, as authorized by the ACC. TEP earns a return on this asset and is recovering these costs through Retail Rates over a four-year period ending November 2012.
- (3) See Cost Recovery Mechanisms discussion.
- (4) TEP's other assets include unamortized loss on reacquired debt (recovery through 2032); coal contract amendment (recovery through 2017); and other assets (recovery through 2014). UNS Gas' other assets consist of rate case costs (recovery over 3 years), and costs of the low income assistance program.
- (5) Income Taxes Recoverable through Future Revenues are amortized over the life of the assets.
- (6) Final Mine Reclamation and Retiree Health Care Costs stem from TEP's jointly-owned facilities at San Juan, Four Corners and Navajo. TEP is required to recognize the present value of its liability associated with final mine reclamation and retiree health care obligations. TEP recorded a regulatory asset because TEP is permitted to fully recover these costs through the PPFAC when the costs are invoiced by the miners. TEP expects to recover these costs over the remaining life of the mines, which is estimated to be between 15 and 21 years. Regulatory liabilities represent items that TEP either expects to pay to customers through billing reductions in future periods or plans to use for the purpose for which they were collected from customers, as described below:

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(7) See Cost Recovery Mechanisms discussion above.

(8) Net Cost of Removal for Interim Retirements represents an estimate of the cost of future asset retirement obligations net of salvage value. These are amounts collected through revenue for the net cost of removal of interim retirements for transmission, distribution, general and intangible plant which are not yet expended. TEP and UNS Electric have also collected amounts for generation plant, which they have not yet expended.

**Income Statement Impact of Applying Regulatory Accounting**

Regulatory accounting had the following effects on TEP's net income:

	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009
	-Millions of Dollars-		
<b>TEP</b>			
<b>Operating Revenues</b>			
Amortization of the Fixed CTC Revenue to be Refunded	\$ 36	\$ 10	\$ 13
<b>Operating Expenses</b>			
Depreciation (related to Net Cost of Removal for Interim			
Retirements)	(29)	(30)	(41)
Deferral of PPFAC Costs	6	22	18
Other		(8)	(16)
<b>Non-Operating Income/Expenses</b>			
Long-Term Debt (Amortization of Loss on Reacquired Debt Costs)	1	1	
AFUDC Equity	4	4	4
Income Taxes Deferral	(8)	1	
Offset by the Tax Effect of the Above Adjustments	(4)		9
<b>Net (Decrease)/Increase to Net Income</b>	<b>\$ 6</b>	<b>\$</b>	<b>(13)</b>

UNS Gas and UNS Electric would have recognized the difference between expected and actual purchased energy costs and commodity derivative unrealized gains or losses as a change in income statement expense, rather than as a change in regulatory balances.

	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009
	-Millions of Dollars-		

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<b>UNS Gas</b>						
Net (Decrease)/Increase to Net Income	\$	(5)	\$	(1)	\$	6
<b>UNS Electric</b>						
Net (Decrease)/Increase to Net Income		3		(7)		7
<b>Future Implications of Discontinuing Application of Regulatory Accounting</b>						

We regularly assess whether we can continue to apply regulatory accounting to regulated operations, and concluded regulatory accounting is applicable. If we stopped applying regulatory accounting to our regulated operations the following would occur:

Regulatory pension assets would be reflected in AOCI;

We would write-off remaining regulatory assets as an expense and regulatory liabilities as income on the income statements;

At December 31, 2011, based on the regulatory assets balances, net of regulatory liabilities:

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

TEP would have recorded an extraordinary after-tax gain of \$62 million and an after-tax loss in AOCI of \$64 million;

UNS Gas would have recorded an extraordinary after-tax gain of \$18 million and an after-tax loss in AOCI of \$2 million; and

UNS Electric would have recorded an extraordinary after-tax loss of \$6 million and an after-tax loss in AOCI of \$3 million. While future regulatory orders and market conditions may affect cash flows, our cash flows would not be affected if we stopped applying regulatory accounting to our regulated operations.

**NOTE 3. SEGMENT AND RELATED INFORMATION**

We have three reportable segments that are determined based on the way we organize our operations and evaluate performance:

(1) TEP, a regulated electric utility business, is our largest subsidiary;

(2) UNS Gas is a regulated gas distribution utility business; and

(3) UNS Electric is a regulated electric utility business.

Results for the UniSource Energy and UES holding companies, Millennium and UED are included in Other below.

In accordance with accounting rules related to the transfer of a business held under common control, we reflect UNS Electric's purchase of BMGS as if it occurred on January 1, 2009. UNS Electric's net income and reconciling adjustments in the table below increased by \$3 million for the year ended December 31, 2011, and \$5 million for each of the years ended December 31, 2010 and 2009. The transaction had no impact on UniSource Energy's consolidated financial statements. In addition, the segments disclosed in the 2010 and 2009 sections of the table below were revised to move Millennium into the Other segment as it is no longer a reportable segment.

We disclose selected financial data for our reportable segments in the following tables:

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Reportable Segments		UNS	Other	Reconciling	UniSource
2011	TEP	UNS Gas	Electric		Adjustments	Energy
	-Millions of Dollars-					
<b><u>Income Statement</u></b>						
Operating Revenues-External	\$ 1,141	\$ 149	\$ 219	\$	\$ 1	\$ 1,510
Operating Revenues-Intersegment	15	2	2	23	(42)	
Depreciation and Amortization	140	8	17	1	(1)	165
Interest Income	4			1		5

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Interest Expense	89	7	7	9		112
Income Tax Expense (Benefit)	52	7	11	(1)	(2)	67
Net Income (Loss)	85	10	18		(3)	110

**Cash Flow Statement**

Capital Expenditures	(352)	(13)	(96)	(34)	121	(374)
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**Balance Sheet**

Total Assets	3,275	319	370	1,172	(1,151)	3,985
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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

2010	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	TEP	Reportable Segments UNS Gas	UNS Electric	Other	Reconciling Adjustments	UniSource Energy
<b>Income Statement</b>						
Operating Revenue-External	\$ 1,096	\$ 144	\$ 213	\$	\$ 1	\$ 1,454
Operating Revenue-Intersegment	29	6	2	28	(65)	
Depreciation and Amortization	132	8	16	2	(2)	156
Interest Income	7			1		8
Interest Expense	88	7	7	9		111
Net Loss from Equity Method						
Investments				(6)		(6)
Income Tax Expense (Benefit)	60	6	10	4	(3)	77
Net Income (Loss)	108	9	15	(14)	(5)	113
<b>Cash Flow Statement</b>						
Capital Expenditures	(277)	(12)	(24)	(18)		(331)
<b>Balance Sheet</b>						
Total Assets	3,076	310	356	1,152	(1,103)	3,791
<b>2009</b>						
<b>Income Statement</b>						
Operating Revenues-External	\$ 1,065	\$ 148	\$ 183	\$	\$ 1	\$ 1,397
Operating Revenues-Intersegment	34	5	4	28	(71)	
Depreciation and Amortization	153	7	16	2	(2)	176
Interest Income	11			1		12
Net Gain from Equity Method						
Investments				5		5
Interest Expense	85	6	7	11		109
Income Tax Expense (Benefit)	54	5	7		(3)	63
Net Income (Loss)	91	7	11	2	(5)	106
<b>Cash Flow Statement</b>						

Capital Expenditures	(240)	(15)	(29)	(10)	(294)
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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Reconciling adjustments consist of the elimination of intersegment revenue resulting from the following transactions, and they are eliminated in consolidation:

	September 30, TEP	September 30, Reportable Segments		September 30, Other
		UNS Gas	UNS Electric	
	-Millions of Dollars-			
<b>Intersegment Revenue</b>				
<b>2011:</b>				
Wholesale Sales TEP to UNS Electric <sup>(4)</sup>	\$ 2	\$	\$	\$
Wholesale Sales UNS Electric to TEP <sup>(4)</sup>			2	
Wholesale Sales UED to UNS Electric				5
Wholesale Sales UNS Gas to TEP <sup>(5)</sup>				
Gas Revenue UNS Gas to UNS Electric		2		
Other Revenue TEP to Affiliates <sup>(4)</sup>	10			
Other Revenue Millennium to TEP, UNS Electric, & UNS Gas <sup>(2)</sup>				18
Other Revenue TEP to UNS Electric <sup>(3)</sup>	3			
<b>Total Intersegment Revenue</b>	<b>\$ 15</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ 23</b>
<b>2010:</b>				
Wholesale Sales TEP to UNS Electric <sup>(4)</sup>	\$ 18	\$	\$	\$
Wholesale Sales UNS Electric to TEP <sup>(4)</sup>			2	
Wholesale Sales UED to UNS Electric				11
Wholesale Sales UNS Gas to TEP <sup>(5)</sup>			1	
Gas Revenue UNS Gas to UNS Electric		5		
Other Revenue TEP to Affiliates <sup>(4)</sup>	8			
Other Revenue Millennium to TEP, UNS Electric, & UNS Gas <sup>(2)</sup>				17
Other Revenue TEP to UNS Electric <sup>(3)</sup>	3			
<b>Total Intersegment Revenue</b>	<b>\$ 29</b>	<b>\$ 6</b>	<b>\$ 2</b>	<b>\$ 28</b>
<b>2009:</b>				
Wholesale Sales TEP to UNS Electric <sup>(4)</sup>	\$ 23	\$	\$	\$
Wholesale Sales UNS Electric to TEP <sup>(4)</sup>			4	
Wholesale Sales UED to UNS Electric				12
Gas Revenue UNS Gas to UNS Electric		5		
Other Revenue TEP to Affiliates <sup>(4)</sup>	8			
				16

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Other Revenue Millennium to TEP, UNS Electric, & UNS Gas

(2)

Other Revenue TEP to UNS Electric <sup>(3)</sup>	3				
Total Intersegment Revenue	\$ 34	\$ 5	\$ 4	\$ 28	

(1) Common costs (systems, facilities, etc.) are allocated on a cost-causative basis and recorded as revenue by TEP. Management believes this method of allocation is reasonable.

(2) Millennium provides a supplemental workforce and meter-reading services to TEP, UNS Gas and UNS Electric. Amounts are based on costs of services performed, and management believes that the charges for services are reasonable. Millennium charged TEP \$17 million in 2011, \$16 million in 2010, and \$15 million in 2009 for these services.

(3) TEP charged UNS Electric for control area services based on a FERC approved tariff.

(4) TEP and UNS Electric sell power to each other at Dow Jones Four Corners Daily Index prices.

(5) Starting in 2010, UNS Gas provides gas to TEP for generation of power at third-party market prices.

TEP provides all corporate services (finance, accounting, tax, information technology services, etc.) to UniSource Energy, UNS Gas and, UNS Electric as well as to UniSource Energy's non-utility businesses. Costs are directly assigned to the benefiting entity. Direct costs charged by TEP to affiliates were \$10 million in 2011, 2010, and 2009.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

UniSource Energy incurs corporate costs that are allocated to TEP and its other subsidiaries. Corporate costs are allocated based on a weighted-average of three factors: assets, payroll and revenues. Management believes this method of allocation is reasonable and approximates the cost that TEP would have incurred as a standalone entity. Charges allocated to TEP were \$2 million in 2011, \$3 million in 2010, and \$2 million in 2009.

**Other**

Other significant reconciling adjustments include intercompany interest between UniSource Energy and UED, the elimination of investments in subsidiaries held by UniSource Energy and reclassifications of deferred tax assets and liabilities.

**NOTE 4. COMMITMENTS, CONTINGENCIES, AND PROPOSED ENVIRONMENTAL MATTERS****TEP COMMITMENTS****Firm Purchase Commitments**

At December 31, 2011, TEP had the following firm non-cancelable purchase commitments (minimum purchase obligations) and operating leases:

	September 30, 2012	September 30, 2013	September 30, 2014	September 30, Purchase Commitments 2015 -Millions of Dollars-	September 30, 2016	September 30, Thereafter	September 30, Total
Fuel (including Transportation)	\$ 84	\$ 59	\$ 58	\$ 44	\$ 41	\$ 75	\$ 361
Purchased Power	29	21	17	13	13	184	277
Solar Equipment	12	12					24
Transmission	3	3	3	3	3	23	38
Operating Leases	2	2	2	1	1	10	18
Total Unrecognized Firm Commitments	\$ 130	\$ 97	\$ 80	\$ 61	\$ 58	\$ 292	\$ 718

**Fuel, Purchased Power and Transmission Contracts**

TEP has long-term contracts for the purchase and delivery of coal and natural gas with various expiration dates from 2012 through 2020. Amounts paid under these contracts depend on actual quantities purchased and delivered. Some of these contracts include a price adjustment clause that will affect the future cost. TEP expects to spend more to meet its fuel requirements than the minimum purchase obligations outlined above.

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TEP has agreements with utilities and other energy suppliers for purchased power to meet system load and energy requirements, replace generation from company-owned units under maintenance and during outages, and meet operating reserve obligations. In general, these contracts provide for capacity payments and energy payments based on actual power taken under the contracts. These contracts expire in various years between 2012 and 2014. Certain of these contracts are at a fixed price per MW and others are indexed to natural gas prices. The commitment amounts included in the table are based on projected market prices as of December 31, 2011.

Additionally, Purchased Power includes two 20-year Power Purchase Agreements (PPAs) with renewable energy generation facilities that achieved commercial operation in 2011. TEP is obligated to purchase 100% of the output from these facilities. TEP has additional long-term renewable PPAs to comply with the RES requirements; however, TEP's obligation to purchase power under these agreements does not begin until the facilities are operational.

Fuel, purchased power and transmission costs are recoverable from customers through the PPFAC.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Solar Equipment**

TEP has a commitment to purchase 9 MW of photovoltaic equipment through December 2013. The ACC approved 6 MW, and we are seeking approval from the ACC for the remaining 3 MW in 2012. TEP spent \$10 million in 2011 under this contract. TEP earns a return on company-owned solar projects. See Note 2.

**Operating Leases**

TEP's aggregate operating lease expense is primarily for rail cars, office facilities and computer equipment, with varying terms, provisions, and expiration dates. This expense totaled \$2 million in each of 2011, 2010, and 2009.

**UNS GAS and UNS ELECTRIC COMMITMENTS**

At December 31, 2011, UNS Gas had firm non-cancelable purchase commitments for fuel, including transportation, as described in the table below:

	September 30, 2012	September 30, 2013	September 30, 2014	September 30, Purchase Commitments 2015 -Millions of Dollars-	September 30, 2016	September 30, Thereafter	September 30, Total
Total Unrecognized Firm Commitments Fuel	\$ 23	\$ 12	\$ 10	\$ 6	\$ 6	\$ 21	\$ 78

UNS Gas purchases gas from various suppliers at market prices. However, UNS Gas's risk of loss due to increased costs (as a result of changes in market prices of fuel) is mitigated through the use of the PGA, which provides for the pass-through of actual commodity costs to customers. UNS Gas's forward gas purchase agreements expire through 2015. Certain of these contracts are at a fixed price per MMBtu and others are indexed to natural gas prices. The commitment amounts included in the table above are based on market prices as of December 31, 2011. UNS Gas has firm transportation agreements with capacity sufficient to meet its load requirements. These contracts expire in various years between 2012 and 2024.

At December 31, 2011, UNS Electric had various firm non-cancelable purchase commitments as described in the table below:

	September 30, 2012	September 30, 2013	September 30, 2014	September 30, Purchase Commitments 2015 -Millions of Dollars-	September 30, 2016	September 30, Thereafter	September 30, Total
Purchased Power	\$ 54	\$ 40	\$ 31	\$ 3	\$ 3	\$ 43	\$ 174
Transmission	4	2	2	1	1		10

Total																				
Unrecognized																				
Firm																				
Commitments	\$	58	\$	42	\$	33	\$	4	\$	4	\$	43	\$	184						

UNS Electric enters into agreements with various energy suppliers for purchased power at market prices to meet its energy requirements. In general, these contracts provide for capacity payments and energy payments based on actual power taken under the contracts. These contracts expire in various years through 2014. Certain of these contracts are at a fixed price per MW, and others are indexed to natural gas prices. The commitment amounts included in the table above are based on market prices as of December 31, 2011. Purchased power commitments also include one 20-year PPA with a renewable energy generation facility that achieved commercial operation in September 2011. UNS Electric is obligated to purchase 100% of the output from this facility.

UNS Electric imports the power it purchases over the Western Area Power Administration's (WAPA) transmission lines. UNS Electric's transmission capacity agreements with WAPA provide for annual rate adjustments and expire in 2012 and 2016. However, the effects of both purchased power and transmission cost adjustments are mitigated through a purchased power rate-adjustment mechanism.

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**UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

UNS Gas and UNS Electric have operating lease expense, primarily for office facilities and computer equipment, with varying terms and expiration dates. The expense was \$1 million in each of the years 2011, 2010, and 2009. UNS Gas and UNS Electric's estimated future minimum payments under non-cancelable operating leases are less than \$1 million per year for 2012 through 2017.

**TEP CONTINGENCIES**

**San Juan Mine Fire**

In September 2011, a fire at the underground mine that provides coal to San Juan caused mining operations to shut down. TEP owns approximately 20% of San Juan, which is operated by PNM. As we are unable to predict when operations will resume at the mine, we and the other owners of San Juan are considering alternatives for operating the facility.

However, based on information we have received to date, we do not expect the mine fire to have a material effect on our financial condition, results of operations, or cash flows due to the current inventory of previously mined coal and the current low market price of wholesale power. TEP expects that any incremental fuel and purchased power costs would be recoverable from customers through the PPFAC, subject to ACC approval.

**Claims Related to San Juan Generating Station**

In April 2010, the Sierra Club filed a citizens' suit under the Resource Conservation and Recovery Act (RCRA) and the Surface Mine Control and Reclamation Act (SMCRA) in the U.S. District Court for the District of New Mexico against PNM, as operator of San Juan; PNM's parent PNM Resources, Inc. (PNMR); San Juan Coal Company (SJCC), which operates the San Juan mine that supplies coal to San Juan; and SJCC's parent BHP Minerals International Inc. (BHP). The Sierra Club alleges in the suit that certain activities at San Juan and the San Juan mine associated with the treatment, storage and disposal of coal and coal combustion residuals (CCRs), primarily coal ash, are causing imminent and substantial harm to the environment, including ground and surface water in the region, and that placement of CCRs at the mine constitute open dumping in violation of RCRA. The RCRA claims are asserted against PNM, PNMR, SJCC and BHP. The suit also includes claims under SMCRA which are directed only against SJCC and BHP. The suit seeks the following relief: an injunction requiring the parties to undertake certain mitigation measures with respect to the placement of CCRs at the mine or to cease placement of CCRs at the mine; the imposition of civil penalties; and attorney's fees and costs. With the agreement of the parties, the court entered a stay of the action in August 2010, to allow the parties to try to address the Sierra Club's concerns. If the parties are unable to settle the matter, PNM has indicated that it plans an aggressive defense of the RCRA claims in the suit.

SJCC operates an underground coal mine in an area where certain gas producers have oil and gas leases with the federal government, the State of New Mexico and private parties. These gas producers allege that SJCC's underground coal mine interferes with their operations, reducing the amount of natural gas they can recover. SJCC has compensated certain gas producers for any remaining production from wells deemed close enough to the mine to warrant plugging and abandoning them. These settlements, however, do not resolve all potential claims by gas producers in the area. TEP cannot estimate the impact of any future claims by these gas producers on the cost of coal at San Juan.

TEP owns 50% of San Juan Units 1 and 2, which represents approximately 20% of the total generation capacity of the entire San Juan Generating Station, and is responsible for its share of any resulting liabilities.

**Claims Related to Four Corners Generating Station**

In October 2011, EarthJustice, on behalf of several environmental organizations, filed a lawsuit in the United States District Court for the District of New Mexico against APS and the other Four Corners Generating Station (Four Corners) participants alleging violations of the Prevention of Significant Deterioration (PSD) provisions of the Clean Air Act at Four Corners. Among other things, the plaintiffs seek to have the court enjoin operations at Four Corners until any required PSD permits are issued and order the payment of civil penalties, including a beneficial mitigation project.



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**UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

TEP owns 7% of Four Corners Units 4 and 5 and is liable for its share of any resulting liabilities.

TEP cannot predict the final outcome of the claims relating to San Juan and Four Corners, and, due to the general and non-specific nature of the claims and the indeterminate scope and nature of the injunctive relief sought for these claims, estimates of the range of loss cannot be determined at this time. TEP accrued estimated losses of less than \$1 million in 2011 in respect of these claims.

**Mine Closure Reclamation at Generating Stations Not Operated by TEP**

TEP pays ongoing reclamation costs related to coal mines that supply generating stations in which TEP has an ownership interest but does not operate. TEP is liable for a portion of final reclamation costs upon closure of these mines. TEP's share of the reclamation costs for coal supply agreements expiring in 2016 through 2019 is approximately \$26 million. TEP recognizes this cost over the remaining terms of these coal supply agreements and had recorded liabilities of \$13 million at December 31, 2011, and \$11 million at December 31, 2010.

Amounts recorded for final reclamation are subject to various assumptions, such as estimations of reclamation costs, the dates when final reclamation will occur, and the credit-adjusted risk-free interest rate to be used to discount future liabilities. As these assumptions change, TEP will prospectively adjust the expense amounts for final reclamation over the remaining coal supply agreement terms. TEP does not believe that recognition of its final reclamation obligations will be material to TEP in any single year because recognition will occur over the remaining terms of its coal supply agreements.

TEP's PPFAC allows TEP to pass through most fuel costs (including final reclamation costs) to customers. Therefore, TEP classifies these costs as a regulatory asset. TEP will increase the regulatory asset and the reclamation liability over the remaining life of the coal supply agreements on an accrual basis and recover the regulatory asset through the PPFAC as final mine reclamation costs are paid to the coal suppliers.

**Tucson to Nogales Transmission Line**

TEP and UNS Electric are parties to a project development agreement for the joint construction of an approximately 60-mile transmission line from Tucson to Nogales, Arizona. UNS Electric's participation in this project was initiated in response to an order by the ACC to improve the reliability of electric service in Nogales. That order was issued before UniSource Energy purchased the electric system in Nogales and surrounding Santa Cruz County from Citizens Utilities in August 2003.

In 2002, the ACC authorized construction of the proposed 345-kV line along a route identified as the Western Corridor subject to a number of conditions, including the issuance of all required permits from state and federal agencies. The U.S. Forest Service subsequently expressed its preference for a different route in its final Environmental Impact Statement for the project. TEP and UNS Electric are considering options for the project. If a decision is made to pursue an alternative route, approvals will be needed from the ACC, the Department of Energy, U.S. Forest Service, Bureau of Land Management, and the International Boundary and Water Commission. As of December 31, 2011, and December 31, 2010, TEP had capitalized \$11 million related to the project, including \$2 million to secure land and land rights. If TEP does not receive the required approvals or abandons the project, TEP believes cost recovery is probable for prudent and reasonably incurred costs related to the project as a consequence of the ACC's requirement for a second transmission line serving the Nogales, Arizona area.

**RESOLUTION OF CONTINGENCIES**

**Settlement of El Paso Electric Dispute**

In November 2011, a settlement agreement between TEP and El Paso became effective after receiving FERC approval in August 2011. The settlement resolved a dispute over transmission service from Luna to TEP's system, totaling \$11 million, under the 1982 Power Exchange and Transmission Agreement between the parties (Exchange Agreement).

The settlement reduced TEP's rights for transmission under the Exchange Agreement from 200 MW to 170 MW and required TEP to pay El Paso a lump-sum of \$5 million, equivalent to the total amount that TEP would have paid El Paso for 30 MW of transmission from February 1, 2006,

through the settlement date, including interest.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Under the PPFAC mechanism, TEP is allowed to recover \$2 million of this additional transmission expense from its customers. In accordance with the settlement agreement, TEP has entered into two new firm transmission service agreements under El Paso's Open Access Transmission Tariff for a total of 40 MW. The settlement agreement also required El Paso to withdraw its appeal before the United States Court of Appeals District of Columbia Circuit and required TEP to withdraw its related complaint before the Arizona District of the United States District Court.

TEP recognized a pre-tax gain of approximately \$7 million, including interest, in the third quarter of 2011. To reflect the gain, TEP recorded a \$7.1 million net reduction to Transmission Expense, \$0.9 million of Interest Income, and \$0.6 million of Interest Expense on the income statements. TEP recorded the payment of \$5 million in Purchased Power in the cash flow statements.

**Take-Or-Pay Accrual for Coal Transportation Agreement**

In December 2010, TEP recorded a \$4 million liability and regulatory asset for take-or-pay obligations under a coal transportation agreement for Sundt Unit 4, effective through December 2015. In December 2011, TEP's take-or-pay obligations were terminated. As a result, TEP reversed its \$4 million liability and regulatory asset.

**Claims Related to Navajo Generating Station**

In June 1999, the Navajo Nation filed suit in the U.S. District Court for the District of Columbia (D.C. Lawsuit) against parties including SRP; several Peabody Coal Company entities including Peabody Western Coal Company (Peabody), the coal supplier to Navajo Generating Station (Navajo); Southern California Edison Company (SCE); and other defendants. Although TEP is not a named defendant in the D.C. Lawsuit, TEP owns 7.5% of Navajo Units 1, 2 and 3. The D.C. Lawsuit alleged, among other things, that the defendants obtained a favorable coal royalty rate on the lease agreements under which Peabody mines coal by improperly influencing the outcome of a federal administrative process pursuant to which the royalty rate was to be adjusted. The suit initially sought \$600 million in damages, treble damages, punitive damages of not less than \$1 billion, and the ejection of defendants from all possessory interests and Navajo Tribal lands arising out of the primary coal lease.

In July 2001, the District Court dismissed all claims against SRP. In April 2010, the Navajo Nation filed a Second Amended Complaint which dropped the treble damages claim. In August 2011, the Navajo Nation, Peabody, SCE and SRP executed a written settlement agreement in return for the Navajo Nation's dismissal of all claims in the D.C. Lawsuit. SRP asked that the Navajo participants, including TEP, contribute toward the settlement based on their respective ownership interests in the Navajo plant, which for TEP is 7.5%. TEP paid SRP the requested contribution which did not have a material impact on TEP's financial statements.

In 2004, Peabody filed a complaint in the Circuit Court for the City of St. Louis, Missouri against the participants at Navajo, including TEP, for reimbursement of royalties and other costs arising out of the D.C. Lawsuit. In July 2008, the parties entered into a joint stipulation of dismissal of these claims which was approved by the Circuit Court. TEP does not believe the lawsuit will be re-filed based upon the final outcome of the D.C. Lawsuit.

**PROPOSED ENVIRONMENTAL MATTERS****ENVIRONMENTAL REGULATION**

TEP's generating facilities are subject to Environmental Protection Agency (EPA) limits on the amount of sulfur dioxide (SO<sub>2</sub>), nitrogen oxide (NO<sub>x</sub>) and other emissions released into the atmosphere. TEP capitalized \$8 million in 2011, \$18 million in 2010 and \$24 million in 2009 in construction costs to comply with environmental requirements, including TEP's share of new pollution control equipment installed at San Juan Generating Station (San Juan) described below. TEP expects to capitalize environmental compliance costs of \$7 million in 2012 and \$25 million in 2013. In addition, TEP recorded operating expenses of \$12 million in 2011, \$14 million in 2010 and \$13 million in 2009 related to environmental compliance. TEP expects environmental expenses to be \$14 million in 2012.

TEP may incur additional costs to comply with future changes in federal and state environmental laws, and regulations and permit requirements at its electric generating facilities. Compliance with these changes may reduce operating efficiency.

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### **UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

##### **Hazardous Air Pollutant Requirements**

The Clean Air Act requires the EPA to develop emission limit standards for hazardous air pollutants that reflect the maximum achievable control technology. The EPA is required to develop rules establishing standards for the control of emissions of mercury and other hazardous air pollutants from electric generating units. The EPA issued the final rule in December 2011.

##### **Navajo**

Based on the EPA's final standards, mercury and particulate emission control equipment may be required at Navajo by 2015. TEP's share of the estimated capital cost of this equipment is less than \$1 million for mercury control and approximately \$43 million if the installation of baghouses to control particulates is necessary.

##### **Springerville**

Based on the EPA's final standards, mercury emission control equipment may be required at Springerville by 2015. The estimated capital cost of this equipment for Springerville Units 1 and 2 is approximately \$5 million. The annual operating cost associated with the mercury emission control equipment is expected to be approximately \$3 million.

##### **San Juan**

Current emission controls at San Juan are expected to be adequate to achieve compliance with the EPA's final federal standards.

##### **Sundt**

TEP does not anticipate the final EPA rule will have a material capital impact on Sundt Unit 4.

##### **Four Corners**

Based on the EPA's final standards, mercury emission control equipment may be required at Four Corners by 2015. The estimated capital cost of this equipment is less than \$1 million. The annual operating cost associated with the mercury emission control equipment is expected to be less than \$1 million.

##### **Regional Haze Rules**

The EPA's regional haze rules require emission controls known as Best Available Retrofit Technology (BART) for certain industrial facilities emitting air pollutants that reduce visibility. The rules call for all states to establish goals and emission reduction strategies for improving visibility in national parks and wilderness areas and to submit a state implementation plan to the EPA for approval. Navajo and Four Corners are located on the Navajo Indian Reservation and therefore are not subject to state regulatory jurisdictions. The EPA oversees regional haze planning for these plants.

Compliance with the EPA's BART determinations, coupled with the financial impact of future climate change legislation, other environmental regulations and other business considerations could jeopardize the economic viability of the San Juan, Four Corners and Navajo plants or the ability of individual participants to meet their obligations and maintain participation in these plants. TEP cannot predict the ultimate outcome of these matters.

##### **San Juan**

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In August 2011, EPA Region VI issued a Federal Implementation Plan (FIP) establishing new emission limits for NO<sub>x</sub>, SO<sub>2</sub> and sulfuric acid emissions at the San Juan Generating Station. The FIP requires the installation of Selective Catalytic Reduction (SCR) technology with sorbent injection on all four units within five years to reduce NO<sub>x</sub> and control sulfuric acid emissions. Based on two cost analyses commissioned by PNM, TEP's share of the cost to install SCR with sorbent injection is estimated to be between \$180 million and \$200 million.

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**UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In September 2011, PNM filed a petition to review the Federal Implementation Plan with the 10th Circuit Court of Appeals challenging various aspects of that plan. In addition, PNM filed a request with the EPA to stay the five-year installation timeframe for environmental upgrades ordered by the Federal Implementation Plan until the 10th Circuit considers and rules on the petition to review.

In October 2011, PNM filed a Petition for Reconsideration of the Federal Implementation Plan. PNM also filed a Request to Stay the effective date of the final BART Federal Implementation Plan under the Clean Air Act with the EPA. In November 2011, PNM filed with the 10th Circuit a Motion to Stay the Federal Implementation Plan. WildEarth Guardians, Dine Citizens against Ruining our Environment, National Parks Conservation Association, New Energy Economy, San Juan Citizens Alliance and Sierra Club were granted leave to intervene in PNM's petition to review in the 10th Circuit. Neither the Petition in the 10th Circuit, nor the Petition for Reconsideration by the EPA delays the implementation timeframe unless a stay is granted. WildEarth Guardians filed a separate appeal against the EPA challenging the five-year, rather than three-year, implementation schedule. PNM was granted leave to intervene in that appeal.

In October 2011, Governor Susana Martinez of New Mexico and the New Mexico Environment Department filed a Petition for Review of the EPA's final Federal Implementation Plan determination in the 10th Circuit and a Petition for Reconsideration of the rule with the EPA. In November 2011, the New Mexico Governor and Environment Department filed a motion with the 10th Circuit to stay the rule. These appeals and motions are all currently pending.

**Four Corners**

In February 2011, the EPA supplemented the proposed FIP for the BART determination at Four Corners that would require the installation of SCR on Units 4 and 5 by 2018. TEP's estimated share of the capital costs to install SCR is approximately \$35 million.

**Navajo**

The EPA is expected to issue a proposed rule establishing the BART for Navajo following the consideration of a report by the National Renewable Energy Laboratory (NREL) in partnership with the Department of the Interior and the Department of Energy. The report addresses potential energy, environmental and economic issues related to compliance with the regional haze rule. The report was submitted to the EPA in January 2012. If the EPA determines that SCR is required at Navajo, the capital cost impact to TEP is estimated to be \$42 million. In addition, the installation of SCR at Navajo could increase the plant's particulate emissions, necessitating the installation of baghouses. If baghouses are required, TEP's estimated share of the capital expenditure for the required baghouses would be approximately \$43 million. The cost of required pollution controls will not be known until final determinations are made by the regulatory agencies. TEP anticipates that if the EPA finalizes a BART rule for Navajo that requires SCR, the owners would have five years to achieve compliance.

**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 5. UTILITY PLANT AND JOINTLY-OWNED FACILITIES****UTILITY PLANT**

The following table shows Utility Plant in Service by major class.

	September 30, UniSource Energy December 31, 2011	September 30, 2010	September 30, TEP December 31, 2011	September 30, 2010
	-Millions of Dollars-			
<b>Plant in Service:</b>				
Electric Generation Plant	\$ 1,879	\$ 1,787	\$ 1,795	\$ 1,709
Electric Transmission Plant	810	741	766	705
Electric Distribution Plant	1,453	1,368	1,234	1,168
Gas Distribution Plant	233	224		
Gas Transmission Plant	18	18		
General Plant	331	215	302	187
Intangible Plant Software Costs	44	34	43	33
Intangible Plant Other	83	61	78	57
Electric Plant Held for Future Use	5	5	4	4
<b>Total Plant in Service</b> <sup>(1)</sup>	4,856	4,453	4,222	3,863
Utility Plant under Capital Leases	\$ 583	\$ 583	\$ 583	\$ 583

<sup>(1)</sup> At December 31, 2010, UniSource Energy's total plant included \$65 million of non-regulated plant in service related to BMGS, with \$4 million of accumulated depreciation. See Note 2 for information regarding UNS Electric's 2011 purchase of BMGS from UED.

**TEP Utility Plant under Capital Leases**

All TEP utility plant under capital leases is used in TEP's generation operations and amortized over the primary lease term. See Note 6. In April 2010, TEP terminated the capital lease of Sundt Unit 4 and purchased the related leased assets. At December 31, 2011, the utility plant under capital leases includes Springerville Common Facilities, Springerville Unit 1, and Springerville Coal Handling Facilities. The following table shows the amount of lease expense incurred for TEP's generation-related capital leases:

September 30,      September 30,      September 30,  
Years Ended December 31,

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	2011	2010	2009
	-Millions of Dollars-		
<b>Lease Expense:</b>			
Interest Expense Included in:			
Capital Leases	\$ 40	\$ 47	\$ 49
Operating Expenses Fuel	4	4	4
Other Expense	1	2	1
Amortization of Capital Lease Assets Included in:			
Operating Expenses Fuel	3	3	2
Operating Expenses Depreciation and Amortization	14	14	26
<b>Total Lease Expense</b>	<b>\$ 62</b>	<b>\$ 70</b>	<b>\$ 82</b>

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The depreciable lives as of December 31, 2011 were as follows:

Major Class of Utility Plant in Service	TEP	UNS Gas and UNS Electric
Electric Generation Plant	6-59 years	38-42 years
Electric Transmission Plant	20-60 years	20-50 years
Electric Distribution Plant	28-60 years	23-50 years
Gas Distribution Plant	n/a	30-55 years
Gas Transmission Plant	n/a	30-65 years
General Plant	5-31 years	5-40 years
Intangible Plant	3-18 years	5-32 years

See *Utility Plant* in Note 1 and *TEP Capital Lease Obligations* in Note 6.

**JOINTLY-OWNED FACILITIES**

At December 31, 2011, TEP's interests in jointly-owned generating stations and transmission systems were as follows:

	September 30, Ownership Percentage	September 30, Plant in Service	September 30, Construction Work in Progress	September 30, Accumulated Depreciation	September 30, Net Book Value
-Millions of Dollars-					
San Juan Units 1 and 2	50.0%	\$ 430	\$ 8	\$ 219	\$ 219
Navajo Station Units 1, 2 and 3	7.5	146	1	99	48
Four Corners Units 4 and 5	7.0	96	2	71	27
Transmission Facilities	7.5 to 95.0	289	9	179	119
Luna Energy Facility	33.3	52		1	51
Total		\$ 1,013	\$ 20	\$ 569	\$ 464

TEP has financed or provided funds for the above facilities and TEP's share of its operating expenses is reflected in the income statements based on the nature of the expense.

**NOTE 6. DEBT, CREDIT FACILITIES, AND CAPITAL LEASE OBLIGATIONS**

Long-term debt matures more than one year from the date of the financial statements. We summarize UniSource Energy's and TEP's long-term debt in the statements of capitalization.

**UNISOURCE ENERGY DEBT- Convertible Senior Notes**

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In 2005, UniSource Energy issued \$150 million of 4.50% Convertible Senior Notes (Convertible Senior Notes) due in 2035. UniSource Energy has the option to redeem the Convertible Senior Notes, in whole or in part, for cash at par plus accrued interest. Investors may require UniSource Energy to repurchase the Convertible Senior Notes, in whole or in part, for cash at par plus accrued interest on March 1 of 2015, 2020, 2025 and 2030, and upon the occurrence of certain fundamental changes, such as a change in control. Each \$1,000 of Convertible Senior Notes can be converted into 28.814 shares of UniSource Energy Common Stock at any time, which is equivalent to a conversion price of approximately \$34.71 per share of common stock. The conversion rate is subject to adjustments including an adjustment to reduce the conversion price upon the payment of quarterly dividends in excess of \$0.19 per share.

In December 2011, UniSource Energy announced that it would redeem \$35 million of the \$150 million outstanding Convertible Senior Notes on January 12, 2012, at a redemption price of 100% of the principal amount plus accrued interest. In January 2012, holders of approximately \$33 million of the Convertible Senior Notes converted their interests into approximately 964,000 shares of UniSource Energy Common Stock. The remaining \$2 million of

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Convertible Senior Notes were redeemed for cash. After the partial redemption, UniSource Energy had \$115 million of Convertible Senior Notes outstanding.

**TEP DEBT****Variable Rate Tax-Exempt Bonds (IDBs)**

At December 31, 2011, TEP had \$215 million in tax-exempt variable rate debt outstanding. At December 31, 2010, TEP had \$365 million outstanding. Each series of bonds is supported by a letter of credit issued under the TEP Credit Agreement or separate TEP Letter of Credit and Reimbursement Agreements. The letters of credit are secured by mortgage bonds issued under TEP's 1992 Mortgage.

In November 2011, TEP repurchased \$150 million of variable rate IDBs. TEP did not cancel the repurchased bonds, which remained outstanding under their respective indentures but were not reflected as debt on the balance sheet. See 2011 TEP Unsecured Notes below.

In December 2010, TEP issued \$37 million of Coconino County, Arizona, tax-exempt pollution control bonds (2010 Coconino Bonds). The 2010 Coconino Bonds are supported by a letter of credit (LOC). The LOC is secured by \$37 million of 1992 Mortgage Bonds and expires December 2014. The bonds accrue interest at a variable weekly rate and are due October 2032. These bonds are multi-modal bonds that allow TEP to change the interest feature of the bonds. They are callable at any time at par plus accrued interest and are subject to mandatory redemption under certain circumstances if the LOC is not extended. The average interest rate on TEP's 2010 Coconino Bonds was 0.23% in 2011 and 0.38% in 2010. TEP used the proceeds to redeem a corresponding principal amount of fixed rate Coconino pollution control bonds.

TEP capitalized less than \$1 million in costs related to the issuance of these bonds and will amortize the costs to interest expense through October 2032, the term of the bonds.

The following table shows interest rates on TEP's variable rate IDBs which are reset weekly by its remarketing agents:

	September 30, 2011	September 30, 2010	September 30, 2009
<b>Interest Rates on IDBs:</b>			
Average Interest Rate	0.18%	0.26%	0.41%
Range of Average Weekly Rates	0.05%	0.17%	0.25%
	to 0.34%	to 0.39%	to 0.79%

In August 2009, TEP entered into an interest rate swap that had the effect of converting \$50 million of variable rate IDBs to a fixed rate of 2.4% from September 2009 to September 2014.

**Unsecured Fixed Rate IDBs**

At December 31, 2011, TEP had \$616 million in unsecured fixed rate IDBs. At December 31, 2010, TEP had \$638 million outstanding.

In November 2011, TEP redeemed \$22 million in unsecured fixed rate IDBs. See 2011 TEP Unsecured Notes below.

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In October 2010, TEP issued \$100 million of Pima County, Arizona tax-exempt IDBs. The IDBs are unsecured, bear interest at a rate of 5.25%, mature in October 2040, and are callable at par on or after October 1, 2020. Net of an underwriting discount, \$99 million of proceeds were deposited in a construction fund with the bond trustee. The proceeds were applied to the construction of certain of TEP's transmission and distribution facilities used to provide electric service in Pima County. TEP drew down \$88 million of the proceeds from the construction fund in 2010 and \$11 million in 2011.

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**UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

TEP capitalized approximately \$1 million in costs related to the issuance of these bonds and will amortize the costs to interest expense through October 2040, the term of the bonds.

**2011 TEP Unsecured Notes**

In November 2011, TEP issued \$250 million of 5.15% Notes due November 2021 at a discount of \$0.8 million. The debt is callable anytime before August 15, 2021, with a make-whole premium plus accrued interest. Anytime after August 15, 2021, the debt is callable at par plus accrued interest. TEP used the net proceeds from the sale to 1) repurchase \$150 million of variable rate IDBs, 2) redeem \$22 million of 6.1% fixed rate IDBs and 3) repay \$78 million of outstanding revolving credit facility balances, with any remaining proceeds to be applied to general corporate purposes. The variable rate IDBs were supported by letters of credit (LOCs) issued under TEP's Credit Facility. As a result of the repurchase of the variable rate IDBs, TEP cancelled \$155 million of LOCs and reduced its mortgage bonds supporting the LOCs by the same amount.

TEP capitalized \$2 million in costs related to the issuance of the notes and will amortize the costs to interest expense through November 2021, the term of the notes.

**1992 Mortgage**

TEP's 1992 Mortgage creates liens on and security interests in most of TEP's utility plant assets, with the exception of Springerville Unit 2. San Carlos Resources Inc., a wholly-owned subsidiary of TEP, holds title to Springerville Unit 2. Utility Plant under Capital Leases is not subject to such liens or available to TEP creditors, other than the lessors. The net book value of TEP's utility plant subject to the lien of the indenture was approximately \$2 billion at December 31, 2011 and December 31, 2010.

**TEP CAPITAL LEASE OBLIGATIONS**

**Springerville Leases**

The terms of TEP's capital leases are as follows:

The Springerville Common Facilities Leases have an initial term to December 2017 for one lease and January 2021 for the other two leases, subject to optional renewal periods of two or more years through 2025. Instead of extending the leases TEP may exercise a fixed-price purchase provision. The fixed prices for the acquisition of common facilities are: \$38 million in 2017 and \$68 million in 2021.

The Springerville Coal Handling Facilities Leases have an initial term to April 2015 but have fixed-rate lease renewal options if certain conditions are satisfied as well as a fixed-price purchase provision of \$120 million. The lease provides for one renewal period of six years beginning in April 2015, with additional renewal periods of five or more years through 2035.

The Springerville Unit 1 Leases have an initial term to January 2015 and provide for renewal periods of three or more years through 2030. TEP has a fair market value purchase option for facilities under the Springerville Unit 1 Lease. TEP agreed with Tri-State, the owner of Springerville Unit 3, and SRP, the owner of Springerville Unit 4, that if the Springerville Coal Handling Facilities and Common Leases are not renewed, TEP will exercise the purchase options under these contracts. SRP will then be obligated to buy a portion of these facilities and Tri State will then be obligated to either 1) buy a portion of these facilities; or 2) continue making payments to TEP for the use of these facilities.



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In December 2011, TEP and the owner participants of the Springerville Unit 1 Leases completed a formal appraisal process to determine the fair market value purchase price, in accordance with the Springerville Unit 1 Leases agreements. Based on that appraisal, TEP would have to pay \$159 million in 2015 for the 86% interest not already owned by TEP.

In January 2012, through scheduled lease payments, TEP reduced its capital lease obligations by \$74 million.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Investments in Springerville Lease Debt and Equity**

TEP's investments in Springerville Unit 1 lease debt totaled \$29 million at December 31, 2011 and \$67 million at December 31, 2010. The investments in lease debt mature in 2013. TEP also held an undivided equity ownership interest in the Springerville Unit 1 Leases totaling \$37 million at December 31, 2011 and December 31, 2010.

**Interest Rate Swaps - Springerville Common Facilities Lease Debt**

TEP's interest rate swaps hedge the floating interest rate risk associated with the Springerville Common Facilities Lease Debt. Interest on the lease debt is payable at six-month LIBOR plus a spread. The applicable spread was 1.625% at each of December 31, 2011 and December 31, 2010. The swaps have the effect of fixing the interest rates on the amortizing principal balances as follows:

	September 30, Fixed Ratio	September 30, LIBOR Spread
<b>Outstanding at December 31, 2011</b>		
\$ 34 million	5.77%	1.625%
\$ 22 million	3.18%	1.625%
\$ 7 million	3.32%	1.625%

TEP recorded these interest rate swaps as a cash flow hedge for financial reporting purposes. See Note 16.

**UNS ELECTRIC SENIOR UNSECURED NOTES**

UNS Electric has \$100 million of senior unsecured notes; \$50 million at 6.5%, due 2015 and \$50 million at 7.1%, due 2023. The UNS Electric long-term notes are guaranteed by UES. The notes may be prepaid with a make-whole call premium reflecting a discount rate equal to an equivalent maturity U.S. Treasury security yield plus 50 basis points.

UNS Electric's long-term notes contain certain restrictive covenants, including restrictions on transactions with affiliates, mergers, liens to secure indebtedness, restricted payments and incurrence of indebtedness.

**UNS ELECTRIC TERM LOAN CREDIT AGREEMENT AND INTEREST RATE SWAP**

In August 2011, UNS Electric entered into a four-year \$30 million variable rate term loan credit agreement. UNS Electric used the \$30 million in proceeds to repay borrowings under its revolving credit facility. The interest rate currently in effect is three-month LIBOR plus 1.25%. At the same time, UNS Electric entered into a fixed-for-floating interest rate swap in which UNS Electric will pay a fixed rate of 0.97% and receive a three-month LIBOR rate on a \$30 million notional amount over a four-year period ending August 10, 2015. The UNS Electric term loan credit agreement, included in Long-Term Debt on the balance sheet, is guaranteed by UES.

The term loan credit agreement contains certain restrictive covenants for UNS Electric and UES. The covenants include restrictions on transactions with affiliates, restricted payments, additional indebtedness, liens and mergers. UNS Electric must meet an interest coverage ratio to issue additional debt. However, UNS Electric may, without meeting these tests, refinance indebtedness and incur short-term debt in an amount not to exceed \$5 million. The credit agreement also requires UNS Electric to maintain a maximum leverage ratio, and allows UNS Electric to pay dividends so long as it maintains compliance with the credit agreement.

**UNS GAS SENIOR UNSECURED NOTES**

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In August 2011, UNS Gas issued \$50 million of senior guaranteed notes at 5.39%, due August 2026. UNS Gas used the proceeds to pay in full the \$50 million of UNS Gas 6.23% notes that matured in August 2011. UNS Gas has another \$50 million of notes at 6.23%, due August 2015. The notes may be prepaid with a make-whole call premium reflecting a discount rate equal to an equivalent maturity U.S. Treasury security yield plus 50 basis points. UES guarantees the notes.

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### **UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

UNS Gas capitalized less than \$0.5 million of costs related to the issuance of the notes and will amortize these costs over the life of the notes.

UNS Gas long-term debt contains certain restrictive covenants, including restrictions on transactions with affiliates, mergers, liens to secure indebtedness, restricted payments and incurrence of indebtedness.

#### **UNISOURCE CREDIT AGREEMENT**

In November 2011, UniSource Energy amended its existing credit agreement to extend the expiration date from November 2014 to November 2016.

In November 2010, UniSource Energy amended and restated its existing credit agreement. As amended, the agreement consists of a \$125 million revolving credit facility and revolving letter of credit facility. UniSource Energy's obligations under the agreement are secured by a pledge of the capital stock of Millennium, UES and UED.

UniSource Energy capitalized less than \$0.5 million related to the 2011 credit agreement amendment and \$1 million related to the 2010 credit agreement amendment and restatement and will amortize these costs through November 2016.

Unisource Energy had \$57 million outstanding borrowings at December 31, 2011 and \$27 million outstanding borrowings at December 31, 2010, under its revolving credit facility. The weighted average interest rate on the revolver was 2.04% at December 31, 2011, and 3.26% at December 31, 2010. We have included the revolver borrowings in Long-Term Debt as UniSource Energy has the ability and the intent to have outstanding borrowings for the next twelve months. As of February 21, 2012, outstanding borrowings under the UniSource Credit Agreement were \$52 million.

Interest rates and fees under the UniSource Credit Agreement are based on a pricing grid tied to UniSource Energy's credit ratings. The interest rate currently in effect on borrowings is LIBOR plus 1.75% for Eurodollar loans or Alternate Base Rate plus 0.75% for Alternate Base Rate loans.

The UniSource Credit Agreement contains a number of covenants which restrict UniSource Energy and its subsidiaries, including restrictions on additional indebtedness, liens, mergers and sales of assets. The UniSource Credit Agreement also requires UniSource Energy to meet a minimum cash flow to interest coverage ratio determined on a UniSource Energy standalone basis and not to exceed a maximum leverage ratio determined on a consolidated basis. Under the UniSource Credit Agreement, UniSource Energy may pay dividends so long as it maintains compliance with the agreement.

#### **TEP CREDIT AGREEMENT**

In December 2011, TEP reduced its letter of credit facility from \$341 million to \$186 million, following the repurchase of \$150 million of variable rate IDBs and the cancellation of \$155 million of LOCs supporting those bonds.

In November 2011, TEP amended its existing credit agreement to extend the expiration date from November 2014 to November 2016.

In November 2010, TEP amended and restated its existing credit agreement, consisting of a \$200 million revolving credit and revolving letter of credit facility and a \$341 million letter of credit facility to support tax-exempt bonds.

The TEP credit facility is secured by \$386 million of mortgage bonds issued under the 1992 Mortgage, which creates a lien on and security interest in most of TEP's utility plant assets.

TEP capitalized \$1 million related to the 2011 credit agreement amendment and \$4 million related to the 2010 credit agreement amendment and restatement and will amortize these costs through November 2016.

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Interest rates and fees under the TEP Credit Agreement are based on a pricing grid tied to TEP's credit ratings. The interest rate currently in effect on borrowings is LIBOR plus 1.125% for Eurodollar loans or Alternate Base Rate plus 0.125% for Alternate Base Rate loans. The margin rate currently in effect on the \$186 million letter of credit facility is 1.125%.

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**UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The TEP Credit Agreement contains a number of covenants which restrict TEP and its subsidiaries, including restrictions on liens, mergers and sale of assets. The TEP Credit Agreement also requires TEP not to exceed a maximum leverage ratio. Under the TEP Credit Agreement, TEP may pay dividends to UniSource Energy so long as it maintains compliance with the agreement.

As of December 31, 2011, TEP had \$10 million in borrowings and \$1 million outstanding in letters of credit under its revolving credit facility. The weighted average interest rate on the revolver was 3.38%, at December 31, 2011. As of December 31, 2010, TEP only had \$1 million outstanding in letters of credit under its revolving credit facility. The revolving loan balance was included in Current Liabilities in the UniSource Energy and TEP balance sheets. The outstanding letters of credit are off-balance sheet obligations of TEP. As of February 21, 2012, TEP had \$85 million in borrowings and \$1 million outstanding in letters of credit under its revolving credit facility.

**2010 TEP REIMBURSEMENT AGREEMENT**

In December 2010, TEP entered into a four-year \$37 million reimbursement agreement (2010 TEP Reimbursement Agreement). A \$37 million letter of credit was issued pursuant to the 2010 TEP Reimbursement Agreement. The letter of credit supports \$37 million aggregate principal amount of variable rate tax-exempt IDBs that were issued on behalf of TEP in December 2010 (See Variable Rate Tax-Exempt Bonds above).

The 2010 TEP Reimbursement Agreement is secured by \$37 million of mortgage bonds issued under TEP's 1992 Mortgage. Fees are payable on the aggregate outstanding amount of the letter of credit at a rate of 1.50% per annum.

The 2010 TEP Reimbursement Agreement contains substantially the same restrictive covenants as the TEP Credit Agreement described above.

**UNS GAS/UNS ELECTRIC CREDIT AGREEMENT**

In November 2011, UNS Gas and UNS Electric amended their existing unsecured credit agreement to extend the expiration date from November 2014 to November 2016.

In November 2010, UNS Gas and UNS Electric amended and restated their existing unsecured credit agreement. As amended, the UNS Gas/UNS Electric Credit Agreement consists of a \$100 million revolving credit and revolving letter of credit facility. The maximum borrowings outstanding at any one time for UNS Gas or UNS Electric under the agreement may not exceed \$70 million. UNS Gas and UNS Electric each are liable for only their own individual borrowings under the UNS Gas/UNS Electric Credit Agreement. UES guarantees the obligations of both UNS Gas and UNS Electric. The UNS Gas/UNS Electric Credit Agreement may be used to issue letters of credit, as well as for revolver borrowings. UNS Gas and UNS Electric issue letters of credit, which are off-balance sheet obligations, to support power and gas purchases and hedges.

UNS Gas and UNS Electric capitalized less than \$0.5 million of costs related to the 2011 credit agreement amendment and \$1 million related to the 2010 credit agreement amendment and restatement, and will amortize these costs through November 2016.

Interest rates and fees under the UNS Electric/UNS Gas Credit Agreement are based on a pricing grid tied to their credit ratings. The interest rate currently in effect on borrowings is LIBOR plus 1.5% for Eurodollar loans or Alternate Base Rate plus 0.5% for Alternate Base Rate loans.

The UNS Electric/UNS Gas Credit Agreement contains a number of covenants which impose restrictions on UNS Gas, UNS Electric and UES, including restrictions on additional indebtedness, liens and mergers. The UNS Electric/UNS Gas Credit Agreement also stipulates a maximum leverage ratio. Under the terms of the UNS Electric/UNS Gas Credit Agreement, UNS Gas and UNS Electric may pay dividends so long as they maintain compliance with the agreement.

**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

UNS Electric had \$6 million and \$13 million in outstanding letters of credit under the UNS Gas/UNS Electric Credit Agreement as of December 31, 2011, and December 31, 2010, respectively, which are not shown on the balance sheet.

**UED SECURED TERM LOAN**

In July 2011, UED received \$63 million from UNS Electric from the sale of BMGS. UED used a portion of those funds to fully repay the \$27 million outstanding under its secured term loan.

**Other**

As of December 31, 2011, UniSource Energy and its subsidiaries were in compliance with the terms of their respective loan, note purchase and credit agreements. No amounts of net income were subject to dividend restrictions.

**DEBT MATURITIES**

Long-term debt, including term loan payments, revolving credit facilities classified as long-term, and capital lease obligations mature on the following dates:

	000000	000000	000000	000000	000000	000000	000000	000000
	<b>TEP</b>							
	<b>Variable Rate IDBs</b>							
	Supported by Letters of Credit <sup>(1)</sup>	TEP Scheduled Debt Retirements <sup>(2)</sup>	TEP Capital Lease Obligations	TEP Total	UNS Gas	UNS Electric	UniSource Energy Parent Company <sup>(3)</sup>	Total
	<b>- Millions of Dollars -</b>							
2012	\$	\$	\$ 118	\$ 118	\$	\$	\$	\$ 118
2013			122	122				122
2014	37		195	232				232
2015			23	23	50	80		153
2016	178		18	196			57	253
Total 2012 - 2016	215		476	691	50	80	57	878
Thereafter		866	61	927	50	50	150	1,177
Less: Imputed Interest			(107)	(107)				(107)
<b>Total</b>	<b>\$ 215</b>	<b>\$ 866</b>	<b>\$ 430</b>	<b>\$ 1,511</b>	<b>\$ 100</b>	<b>\$ 130</b>	<b>\$ 207</b>	<b>\$ 1,948</b>

<sup>(1)</sup> TEP's Variable Rate IDBs are backed by \$186 million in LOCs issued pursuant to TEP's Credit Agreement which expires in November 2016 and TEP's \$37 million Reimbursement Agreement which expires December 2014. Although the Variable Rate IDBs mature between 2018 and 2032, the above table reflects a redemption or repurchase of such bonds in 2014 and 2016 as though the LOCs terminate without replacement upon expiration of the TEP Credit Agreement.

- (2) The repayment of TEP Unsecured Notes is not reduced by the approximately \$1 million discount.
- (3) In January 2012, UniSource Energy redeemed \$35 million of its convertible senior notes. Pursuant to the redemption, substantially all of the notes were converted into approximately 1 million shares of UniSource Energy Common Stock.

**NOTE 7. STOCKHOLDERS EQUITY**

**DIVIDEND LIMITATIONS**

**UniSource Energy**

Our ability to pay cash dividends on Common Stock outstanding depends, in part, upon cash flows from our subsidiaries: TEP, UES, Millennium and UED, as well as compliance with various debt covenant requirements. UniSource Energy and each of its subsidiaries were in compliance with debt covenants at December 31, 2011; therefore, TEP and the other subsidiaries were not restricted from paying dividends.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In February 2012, UniSource Energy declared a first quarter dividend to shareholders of \$0.43 per share of UniSource Energy Common Stock. The dividend, totaling approximately \$16 million, will be paid on March 22, 2012, to common shareholders of record as of March 12, 2012.

In January 2012, holders of approximately \$33 million of the Convertible Senior Notes converted their interests into approximately 964,000 shares of UniSource Energy Common Stock increasing common stock equity by \$33 million.

**TEP**

UniSource Energy is the holder of TEP's common stock. TEP pays dividends from current year earnings; therefore the dividend restriction in the Federal Power Act does not limit TEP's payment of dividends from net income. TEP paid dividends to UniSource Energy of \$60 million in both 2010 and 2009. TEP did not pay dividends to UniSource Energy in 2011.

UniSource Energy contributed capital to TEP of \$30 million in 2011, \$15 million in 2010, and \$30 million in 2009.

**NOTE 8. INCOME TAXES**

A reconciliation of the federal statutory income tax rate to each company's effective income tax rate follows:

	000000	000000	000000	000000	000000	000000
	UniSource Energy				TEP	
	Years Ended December 31,					
	2011	2010	2009	2011	2010	2009
	-Millions of Dollars-					
Federal Income Tax Expense at Statutory Rate	\$ 62	\$ 66	\$ 59	\$ 48	\$ 58	\$ 51
State Income Tax Expense, Net of Federal Benefit	8	9	7	6	8	6
Deferred Tax Asset Valuation Allowance		8				
Deferred Tax Asset Write-Off Related to Unregulated Investment		3				
AFUDC Equity	(1)	(1)	(1)	(1)	(1)	(1)
Domestic Production Deduction		(3)	(1)		(3)	(1)
Federal/State Tax Credits	(3)	(2)	(1)	(2)	(2)	(1)
Other	1	(3)		1		
<b>Total Federal and State Income Tax Expense</b>	<b>\$ 67</b>	<b>\$ 77</b>	<b>\$ 63</b>	<b>\$ 52</b>	<b>\$ 60</b>	<b>\$ 54</b>

Effective Tax Rate 38% 41% 37% 38% 36% 37%

In 2010, UniSource Energy recorded a \$3 million out-of-period income tax expense. The out-of-period expense related to the write-off of a previously recorded deferred tax asset associated with the excess of tax over book basis difference in a consolidated unregulated investment. Management concluded that this out-of-period adjustment was not material to the current and prior period financial statements.

**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Income tax expense included in the income statements consists of the following:

	September 30, 2011	September 30, UniSource Energy 2010	September 30, Years Ended December 31, 2009	September 30, December 31, 2011	September 30, TEP 2010	September 30, 2009
	-Millions of Dollars-					
<b>Current Tax Expense (Benefit)</b>						
Federal	\$ (7)	\$ 34	\$ 6	\$ (5)	\$ 28	\$ 7
State	(2)	7		(2)	7	1
<b>Total</b>	<b>(9)</b>	<b>41</b>	<b>6</b>	<b>(7)</b>	<b>35</b>	<b>8</b>
<b>Deferred Tax Expense (Benefit)</b>						
Federal	64	32	47	50	24	38
Federal Investment Tax Credits	(1)	(1)		(1)	(1)	
State	13	5	10	10	2	8
<b>Total</b>	<b>76</b>	<b>36</b>	<b>57</b>	<b>59</b>	<b>25</b>	<b>46</b>
<b>Total Federal and State Income Tax Expense</b>	<b>\$ 67</b>	<b>\$ 77</b>	<b>\$ 63</b>	<b>\$ 52</b>	<b>\$ 60</b>	<b>\$ 54</b>

The significant components of deferred income tax assets and liabilities consist of the following:

	September 30, UniSource Energy December 31, 2011	September 30, 2010	September 30, TEP December 31, 2011	September 30, 2010
	-Millions of Dollars-			
<b>Gross Deferred Income Tax Assets</b>				
Capital Lease Obligations	\$ 169	\$ 192	\$ 169	\$ 192
Net Operating Loss Carryforwards	81		76	
Customer Advances and Contributions in Aid of Construction	30	43	17	27
Alternative Minimum Tax Credit	43	34	25	16
Accrued Postretirement Benefits	23	24	23	24
Renewable Energy Credit Up-Front Incentive Payments	22	14	18	11

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Emission Allowance Inventory	10	11	10	11
Unregulated Investment Losses	9	9		
Other	34	29	29	26
<b>Gross Deferred Income Tax Assets</b>	<b>421</b>	<b>356</b>	<b>367</b>	<b>307</b>
<b>Deferred Tax Assets Valuation Allowance</b>	<b>(7)</b>	<b>(8)</b>		
<b>Gross Deferred Income Tax Liabilities</b>				
Plant Net	(581)	(465)	(513)	(413)
Capital Lease Assets Net	(41)	(48)	(41)	(48)
Regulatory Asset Income Taxes Recoverable Through Future Revenues	(4)	(7)	(3)	(7)
Pensions	(17)	(12)	(18)	(13)
PPFAC	(19)	(1)	(16)	
Other	(29)	(30)	(17)	(22)
<b>Gross Deferred Income Tax Liabilities</b>	<b>(691)</b>	<b>(563)</b>	<b>(608)</b>	<b>(503)</b>
<b>Net Deferred Income Tax Liabilities</b>	<b>\$ (277)</b>	<b>\$ (215)</b>	<b>\$ (241)</b>	<b>\$ (196)</b>

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The balance sheets display the net deferred income tax liability as follows:

	September 30, UniSource Energy December 31, 2011	September 30, 2010	September 30, TEP December 31, 2011	September 30, TEP December 31, 2010
	-Millions of Dollars-			
Deferred Income Taxes Current Assets	\$ 23	\$ 31	\$ 22	\$ 32
Deferred Income Taxes Noncurrent Liabilities	(300)	(246)	(263)	(228)
<b>Net Deferred Income Tax Liability</b>	<b>\$ (277)</b>	<b>\$ (215)</b>	<b>\$ (241)</b>	<b>\$ (196)</b>

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred income tax asset will not be realized. The \$9 million unregulated investment loss deferred tax asset includes \$7 million of capital loss at December 31, 2011 and \$8 million at December 31, 2010. The deferred tax asset can only be used if the company has capital gains to offset the losses. Management believes that it is more likely than not that the company will not be able to generate future capital gains. As a result, UniSource Energy recorded a \$7 million valuation allowance against the deferred tax asset as of December 31, 2011 and \$8 million at December 31, 2010. Management believes that based on its historical pattern of taxable income, UniSource Energy will produce sufficient income in the future to realize all other deferred income tax assets.

**State Tax Rate Change**

We record deferred tax assets and liabilities using the income tax rates expected to be in effect when the deferred tax assets and liabilities are realized or settled. In the first quarter of 2011, the Arizona legislature passed a bill reducing the corporate income tax rate from the current rate of 6.968%. The tax rate reduction will be phased in beginning in 2014, with a reduction of approximately 0.5% per year until the income tax rate reaches 4.9% for 2017 and later years. As a result of these tax rate reductions, we reduced the net deferred tax liabilities at UniSource Energy and TEP by \$13 million, offset entirely by adjustments to regulatory assets and liabilities. The income tax rate change did not have an impact on UniSource Energy's and TEP's effective tax rate for 2011.

**Uncertain Tax Positions**

In accordance with accounting rules related to uncertain tax positions, we are required to determine whether it is more likely than not that we will sustain an income tax position under examination. Each income tax position is measured to determine the amount of benefit to recognize in the financial statements. The following table shows the changes in unrecognized tax benefits of UniSource Energy and TEP:

	September 30, UniSource Energy December 31, 2011	September 30, 2010	September 30, TEP December 31, 2011	September 30, TEP December 31, 2010
	-Millions of Dollars-			

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<b>Unrecognized Tax Benefits, beginning of year</b>	\$	41	\$	19	\$	35	\$	19
Additions based on tax positions taken in the current year		9		11		8		8
Reductions based on settlements with tax authorities		(22)				(19)		
Additions based on tax positions taken in the prior year		1		16				13
Reductions based on tax positions taken in the prior year				(4)				(4)
Reductions based on expiration of the statute of limitations				(1)				(1)
<b>Unrecognized Tax Benefits, end of year</b>	\$	29	\$	41	\$	24	\$	35

Unrecognized tax benefits of \$1 million, if recognized, would reduce the effective tax rate at December 31, 2011, and December 31, 2010, for both UniSource Energy and TEP. Included in reductions based on settlements with authorities is \$13 million for UniSource Energy and \$10 million for TEP related to a change in accounting method filed with the Internal Revenue Service (IRS) in 2011. The remaining balance in unrecognized tax benefits could change in the next twelve months as a result of ongoing IRS audits, but we are unable to determine the amount of the change.

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**UNISOURCE ENERGY, TEP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

UniSource Energy and TEP recognize interest accrued related to unrecognized tax benefits in Other Interest Expense in the income statements. UniSource Energy and TEP recorded a reduction to interest expense of \$1 million in 2011 and 2009. We did not recognize a reduction to interest expense in 2010. The balance of interest payable for UniSource Energy and TEP was \$1 million at December 31, 2011 and \$2 million at December 31, 2010. We have no penalties accrued in the years presented.

UniSource Energy and TEP have been audited by the IRS through tax year 2006 and are currently under audit by the IRS for 2008 through 2010. 2007 was not selected for audit. We are unable to determine when the audits will be completed. UniSource Energy and TEP are not currently under audit by any state tax agencies.

**NOTE 9. EMPLOYEE BENEFIT PLANS**

**PENSION BENEFIT PLANS**

We maintain noncontributory, defined benefit pension plans for substantially all regular employees and certain affiliate employees. Benefits are based on years of service and the employee's average compensation. We fund the pension plans by contributing at least the minimum amount required under Internal Revenue Service regulations.

We recognize the underfunded status of our defined benefit pension plans as a liability on our balance sheets. The underfunded status is measured as the difference between the fair value of the pension plans' assets and the projected benefit obligation for pension plans. We recognize a regulatory asset to the extent these future costs are probable of recovery in Retail Rates, and expect to recover these costs over the estimated service lives of employees.

Additionally, we provide supplemental retirement benefits to certain employees whose benefits are limited by Internal Revenue Service benefit or compensation limitations. Changes in Supplemental Executive Retirement Plan (SERP) benefit obligations are recognized as a component of accumulated other comprehensive income (AOCI).

**Pension Contributions**

The Pension Protection Act of 2006 (The Pension Act) established minimum funding targets for pension plans. A plan's funding target is the present value of all benefits accrued or earned as of the beginning of the plan year. While the annual targets are not legally required, benefit payment options are limited for plans that do not meet the targets, and a funding deficiency notice must be sent to all plan participants. Our plans are in compliance with The Pension Act.

In 2012, UniSource Energy expects to contribute \$23 million to the pension plans, including \$20 million in contributions by TEP.

**OTHER POSTRETIREMENT BENEFIT PLANS**

TEP provides limited health care and life insurance benefits for retirees. All regular employees may become eligible for these benefits if they reach retirement age while working for TEP or an affiliate. UNS Gas and UNS Electric provide postretirement medical benefits for current retirees. UNS Gas and UNS Electric active employees do not participate in the postretirement medical plan.

In 2009, TEP established a Voluntary Employee Beneficiary Association (VEBA) to fund its other postretirement benefit plan. TEP contributed \$2 million in each of 2011 and 2010 and \$1 million in 2009 to the VEBA. We record changes in other postretirement obligation, not yet reflected in net periodic benefit cost, as a regulatory asset, as such amounts are probable of future recovery in Retail Rates. TEP's retiree medical plan was amended effective December 31, 2011 to increase the participant contributions for unclassified employees who retire on or after July 1, 2012.



**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The pension and other postretirement benefit related amounts (excluding tax balances) included on the UniSource Energy balance sheet are:

	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2011	September 30, 2010
	Pension Benefits		Other Postretirement Benefits	
	-Millions of Dollars-			
Regulatory Pension Asset included in Other Regulatory Assets	\$ 106	\$ 86	\$ 8	\$ 8
Accrued Benefit Liability included in Accrued Employee Expenses	(1)		(2)	(4)
Accrued Benefit Liability included in Pension and Other Postretirement Benefits	(72)	(63)	(66)	(65)
Accumulated Other Comprehensive Loss (SERP)	2	4		
<b>Net Amount Recognized</b>	<b>\$ 35</b>	<b>\$ 27</b>	<b>\$ (60)</b>	<b>\$ (61)</b>

The table above includes accrued pension benefit liabilities for UNS Gas and UNS Electric of approximately \$8 million at December 31, 2011, and \$6 million at December 31, 2010. The table also includes a postretirement benefit liability of \$1 million for UNS Gas and UNS Electric for each period presented.

**OBLIGATIONS AND FUNDED STATUS**

We measured the actuarial present values of all pension benefit obligations and other postretirement benefit plans at December 31, 2011, and December 31, 2010. The tables below include TEP's, UNS Gas and UNS Electric's plans. The change in projected benefit obligation and plan assets and reconciliation of the funded status are as follows:

	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2011	September 30, 2010
	Pension Benefits		Other Postretirement Benefits	
	-Millions of Dollars-			
<b>Change in Projected Benefit Obligation</b>				
Benefit Obligation at Beginning of Year	\$ 283	\$ 242	\$ 73	\$ 71
Actuarial (Gain) Loss	22	28		(1)
Interest Cost	16	15	4	4
Service Cost	10	8	3	3
Amendments			(2)	



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Other		1		
Benefits Paid	(12)	(11)	(5)	(4)
<b>Projected Benefit Obligation at End of Year</b>	<b>319</b>	<b>283</b>	<b>73</b>	<b>73</b>
<b>Change in Plan Assets</b>				
Fair Value of Plan Assets at Beginning of Year	220	184	4	2
Actual Return on Plan Assets	14	25		
Benefits Paid	(12)	(11)	(5)	(4)
Employer Contributions (1)	23	22	6	6
<b>Fair Value of Plan Assets at End of Year</b>	<b>245</b>	<b>220</b>	<b>5</b>	<b>4</b>
<b>Funded Status at End of Year</b>	<b>\$ (74)</b>	<b>\$ (63)</b>	<b>\$ (68)</b>	<b>\$ (69)</b>

(1) TEP made \$20 million in pension contributions and \$6 million of other postretirement benefits contributions in 2011 and 2010.

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	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2011	September 30, 2010	September 30, 2009
	Pension Benefits		Years Ended December 31, 2009 2011		Other Postretirement Benefits	
	-Millions of Dollars-					
Service Cost	\$ 10	\$ 8	\$ 7	\$ 3	\$ 3	\$ 2
Interest Cost	15	15	14	4	4	4
Expected Return on Plan Assets	(16)	(14)	(11)			
Prior Service Cost Amortization			1	(1)	(2)	(2)
Recognized Actuarial Loss	6	5	7			1
<b>Net Periodic Benefit Cost</b>	<b>\$ 15</b>	<b>\$ 14</b>	<b>\$ 18</b>	<b>\$ 6</b>	<b>\$ 5</b>	<b>\$ 5</b>

Approximately 19% of the net periodic benefit cost was capitalized as a cost of construction and the remainder was included in current year earnings.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The changes in plan assets and benefit obligations recognized as regulatory assets or in AOCI are as follows:

	September 30, 2011 Regulatory Asset	September 30, AOCI	September 30, Pension Benefits 2010 Regulatory Asset	September 30, AOCI	September 30, 2009 Regulatory Asset
-Millions of Dollars-					
Current Year Actuarial (Gain) Loss	\$ 25	\$ (2)	\$ 16	\$ 1	\$ (21)
Amortization of Actuarial (Gain) Loss	(5)		(5)		(7)
Plan Amendments					(1)
<b>Total Recognized (Gain) Loss</b>	<b>\$ 20</b>	<b>\$ (2)</b>	<b>\$ 11</b>	<b>\$ 1</b>	<b>\$ (29)</b>

	September 30, 2011 Regulatory Asset	September 30, Other Postretirement Benefits 2010 Regulatory Asset	September 30, 2009 Regulatory Asset
-Millions of Dollars-			
Prior Service Cost (Credit)	\$ (2)	\$	\$
Current Year Actuarial (Gain) Loss		(1)	1
Amortization of Actuarial Gain (Loss)		(1)	(1)
Prior Service (Cost) Amortization	1	2	2
<b>Total Recognized (Gain) Loss</b>	<b>\$ (1)</b>	<b>\$</b>	<b>\$ 2</b>

For all pension plans, we amortize prior service costs on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan. We will amortize \$7 million estimated net loss and less than \$0.5 million prior service cost from other regulatory assets and less than \$0.5 million prior service cost from AOCI into net periodic benefit cost in 2012. The estimated net loss for the defined benefit postretirement plans that will be amortized from other regulatory assets into net periodic benefit cost in 2012 is less than \$1 million. The estimated prior service benefit that will be amortized is less than \$1 million.

	September 30, 2011 Pension Benefits	September 30, 2010 Pension Benefits	September 30, 2011 Other Postretirement Benefits	September 30, 2010 Other Postretirement Benefits
<b>Weighted-Average Assumptions Used to Determine Benefit Obligations as of the Measurement Date</b>				

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Discount Rate	4.9%-5.0%	5.5% - 5.6%	4.7%	5.2%
Rate of Compensation Increase	3.0%	3.0% 5.0%	N/A	N/A

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
<b>Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended December 31</b>						
Discount Rate	5.5%-5.6%	6.3%	6.3%	5.2%	6.0%	6.5%
Rate of Compensation Increase	3.0%-5.0%	3.0% 5.0%	3.0% -5.0%	N/A	N/A	N/A
Expected Return on Plan Assets	7.0%	7.5%	8.0%	5.1%	5.6%	N/A

Net periodic benefit cost is subject to various assumptions and determinations, such as the discount rate, the rate of compensation increase, and the expected return on plan assets.

We use a combination of sources in selecting the expected long-term rate-of-return-on-assets assumption, including an investment return model. The model used provides a best-estimate range over 20 years from the 25<sup>th</sup> percentile to the 75<sup>th</sup> percentile. The model used as a guideline for selecting the overall rate-of-return-on-assets assumption is based on forward looking return expectations only. The above method is used for all asset classes.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Changes that may arise over time with regard to these assumptions and determinations will change amounts recorded in the future as net periodic benefit cost.

	September 30, December 31, 2011	September 30, December 31, 2010
<b>Assumed Health Care Cost Trend Rates</b>		
Health Care Cost Trend Rate Assumed for Next Year	6.9%	7.9%
Ultimate Health Care Cost Trend Rate Assumed	4.5%	4.5%
Year that the Rate Reaches the Ultimate Trend Rate	2049	2027

Assumed health care cost trend rates significantly affect the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects on the December 31, 2011 amounts:

	September 30, One-Percentage- Point Increase	September 30, One-Percentage- Point Decrease
	-Millions of Dollars-	
Effect on Total of Service and Interest Cost Components	\$ 1	\$ (1)
Effect on Postretirement Benefit Obligation	5	(5)

**PENSION PLAN AND OTHER POSTRETIREMENT BENEFIT ASSETS****Pension Assets**

We calculate the fair value of plan assets on December 31, the measurement date. Pension plan asset allocations, by asset category, were as follows:

Asset Category	September 30, TEP Plan Assets December 31, 2011	September 30, December 31, 2010	September 30, UNS Gas and UNS Electric Plan Assets December 31, 2011	September 30, December 31, 2010
	Equity Securities	49%	57%	55%
Fixed Income Securities	42	34	34	32
Real Estate	7	7	11	11
Other	2	2		
Total	100%	100%	100%	100%

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following tables set forth the fair value measurements of pension plan assets, by level within the fair value hierarchy:

Asset Category	September 30,	September 30,		September 30,	September 30,
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Measurements of Pension Assets December 31, 2011	
				Total	Total
Cash Equivalents	\$ 1	\$	\$	\$	\$ 1
Equity Securities:					
U.S. Large Cap			61		61
U.S. Small Cap			13		13
Non-U.S.			47		47
Fixed Income			101		101
Real Estate			7	11	18
Private Equity				4	4
Total	\$ 1	\$ 229	\$ 15	\$	\$ 245

Asset Category	September 30,	September 30,		September 30,	September 30,
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Measurements of Pension Assets December 31, 2010	
				Total	Total
Cash Equivalents	\$ 1	\$	\$	\$	\$ 1
Equity Securities:					
U.S. Large Cap			63		63
U.S. Small Cap			12		12
Non-U.S.			51		51
Fixed Income			75		75
Real Estate			6	10	16
Private Equity				2	2
Total	\$ 1	\$ 207	\$ 12	\$	\$ 220



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Level 1 cash equivalents are based on observable market prices and are comprised of the fair value of commercial paper, money market funds, and certificates of deposit.

Level 2 investments comprise amounts held in commingled equity funds, U.S. bond and real estate funds. Valuations are based on active market quoted prices for assets held by each respective fund.

Level 3 real estate investments were valued using a real estate index value. The real estate index value was developed based on appraisals comprising 85% of real estate assets tracked by the index in 2011, and comprising 94% in 2010.

Level 3 private equity funds are classified as funds-of-funds. They are valued based on individual fund manager valuation models.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The tables above reflecting the fair value measurements of pension plan assets include Level 2 assets for the UES pension plan of \$10 million at December 31, 2011, and \$9 million at December 31, 2010.

The following tables set forth a reconciliation of changes in the fair value of pension assets classified as Level 3 in the fair value hierarchy. There were no transfers in or out of Level 3.

	September 30, Private Equity	September 30, Real Estate	September 30, Hedge Fund	September 30, Total
	Year Ended December 31, 2011 - Millions of Dollars -			
Beginning Balance at January 1, 2011	\$ 2	\$ 10	\$	\$ 12
Actual Return on Plan Assets:				
Assets Held at Reporting Date		1		1
Assets Sold During the Period				
Purchases, Sales, and Settlements	2			2
Ending Balance at December 31, 2011	\$ 4	\$ 11	\$	\$ 15

	September 30, Private Equity	September 30, Real Estate	September 30, Hedge Fund	September 30, Total
	Year Ended December 31, 2010 - Millions of Dollars -			
Beginning Balance at January 1, 2010	\$ 1	\$ 8	\$ 1	\$ 10
Actual Return on Plan Assets:				
Assets Held at Reporting Date		1		1
Assets Sold During the Period			(1)	(1)
Purchases, Sales, and Settlements	1	1		2
Ending Balance at December 31, 2010	\$ 2	\$ 10	\$	\$ 12

UES has no pension assets classified as Level 3 in the fair value hierarchy.

**Pension Plan Investments****Investment Goals**

Strategic asset allocation is the principal method for achieving each pension plan's investment objective, while maintaining an appropriate level of risk. We will consider the projected impact on benefit security of any proposed changes to the current asset allocation policy. The expected long-term returns and implications for pension plan sponsor funding will be reviewed in selecting policies to ensure that current asset pools are projected to be adequate to meet the expected liabilities of the pension plans. We expect to use asset allocation policies weighted most heavily to

equity and fixed income funds, while maintaining some exposure to real estate and opportunistic funds. Within the fixed income allocation, long-duration funds may be used to partially hedge interest rate risk.

**Risk Management**

We recognize the difficulty of achieving investment objectives in light of the uncertainties and complexities of the investment markets. We also recognize some risk must be assumed to achieve a pension plan's long-term investment objectives. In establishing risk tolerances, the following factors affecting risk tolerance and risk objectives will be considered: 1) plan status; 2) plan sponsor financial status and profitability; 3) plan features; and 4) workforce characteristics. We have determined that the pension plans can tolerate some interim fluctuations in market value and rates of return in order to achieve long-term objectives. TEP tracks each pension plan's portfolio relative to the benchmark through quarterly investment reviews. The reviews consist of a performance and risk assessment of all investment categories and on the portfolio as a whole. Investment managers for the pension plan may use derivative financial instruments for risk management purposes or as part of their investment strategy. Currency hedges also have been used for defensive purposes.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Relationship between Plan Assets and Benefit Obligations**

The overall health of each plan will be monitored by comparing the value of plan obligations (both Accumulated Benefit Obligation and Projected Benefit Obligation) against the market value of assets and tracking the changes in each. The frequency of this monitoring will depend on the availability of plan data, but will be no less frequent than annually via annual actuarial valuation.

The current target allocation percentages for the major categories of plan assets as of December 31, 2011 follow. Each plan allows a variance of +/- 2% from these targets before funds are automatically rebalanced.

	September 30, TEP Plan	September 30, UES Plan	September 30, VEBA Trust
Fixed Income	41%	33%	38%
U.S. Large Cap	24%	28%	33%
Non-U.S. Developed	15%	17%	9%
Real Estate	8%	11%	
U.S. Small Cap	5%	5%	7%
Non-U.S. Emerging	5%	6%	11%
Private Equity	2%		
Cash / Treasury Bills			2%
Total	100%	100%	100%

**Pension Fund Descriptions**

The funds are manager of manager funds, which allow different fund managers to make investment decisions, with the exception of the private equity fund, which holds a portfolio of investment funds.

**Other Postretirement Benefit Assets**

As of December 31, 2011, the fair value of VEBA trust assets were \$5 million, of which \$3 million were fixed income investments and \$2 million were equities. As of December 31, 2010, the fair value of VEBA trust assets was \$4 million, including \$2 million of fixed income investments and approximately \$2 million of equity and money market funds. There are no level three assets in the VEBA trust.

**ESTIMATED FUTURE BENEFIT PAYMENTS**

TEP expects the following benefit payments to be made by the defined benefit pension plans and postretirement plan, which reflect future service, as appropriate.

September 30,      September 30,

	<b>Pension Benefits</b>	<b>Other Postretirement Benefits</b>
	<b>-Millions of Dollars-</b>	
2012	\$ 13	\$ 4
2013	15	5
2014	16	5
2015	17	5
2016	18	5
Years 2017-2021	109	31

UNS Gas and UNS Electric expect annual pension and postretirement benefit payments of approximately \$6 million in 2012 through 2016 and \$9 million in 2017 through 2021 to be made by the defined benefit pension and postretirement plans.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DEFINED CONTRIBUTION PLANS**

We offer defined contribution savings plans to all eligible employees. The Internal Revenue Code identifies the plans as qualified 401(k) plans. Participants direct the investment of contributions to certain funds in their account which may include a UNS stock fund. We match part of a participant's contributions to the plans. TEP made matching contributions to these plans of \$5 million in 2011 and \$4 million in each of 2010 and 2009. UNS Gas and UNS Electric made matching contributions of less than \$1 million in each of 2011, 2010, and 2009.

**NOTE 10. SHARE-BASED COMPENSATION PLAN**

In 2011, UniSource Energy shareholders approved the UniSource Energy 2011 Omnibus Stock and Incentive Plan (2011 Plan), a new share-based compensation plan. Under the 2011 Plan, the Compensation Committee of the UniSource Energy Board of Directors (Compensation Committee) may issue various types of share-based compensation, including stock options, restricted shares/units, and performance shares. The total number of shares which may be awarded under the 2011 Plan cannot exceed 1.2 million shares. The 2011 Plan supersedes and replaces the UniSource Energy 2006 Omnibus Stock and Incentive Plan (2006 Plan) and all other prior equity compensation plans (Prior Plans). The Prior Plans, however, remain in effect until all stock options and other awards granted thereunder have been exercised, forfeited, canceled, expired or terminated.

**STOCK OPTIONS**

No stock options were granted by the Compensation Committee during 2011 or 2010. In 2009, the Compensation Committee granted 248,760 stock options to officers with an exercise price of \$26.11.

Stock options are granted with an exercise price equal to the fair market value of the stock on the date of grant, vest over three years, become exercisable in one-third increments on each anniversary date of the grant, and expire on the tenth anniversary of the grant. Compensation expense is recorded on a straight-line basis over the service period for the total award based on the grant date fair value of the options less estimated forfeitures. For awards granted to retirement eligible officers, compensation expense is recorded immediately. The 2002 stock option award accrues dividend equivalents that are paid in cash on the earlier of the date of separation of service or the date the option expires. Dividend equivalents are recorded as dividends when paid.

The fair value of the 2009 option award was estimated on the date of grant using the Black-Scholes-Merton option pricing model with the assumptions noted in the following table. The expected term of the stock options granted in 2009 was estimated using historical exercise data. The risk-free rate was based on the rate available on a U.S. Treasury Strip with a maturity equal to the expected term of the option at the time of the grant. The expected volatility was based on historical volatility for UniSource Energy's stock for a period equal to the expected term of the award. The expected dividend yield on a share of stock was calculated using the historical dividend yield with the implicit assumption that current dividend yields will continue in the future.

	<b>September 30, 2009</b>
Expected Term (years)	7
Risk-free Rate	3.4%
Expected Volatility	25.0%
Expected Dividend Yield	3.2%
Weighted-Average Grant-Date Fair Value of Options Granted During the Period	\$ 5.53



**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

See summary of the stock option activity in the table below:

(Shares in Thousands)	September 30, 2011		September 30, 2010		September 30, 2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<b>Stock Options</b>						
Outstanding, Beginning of Year	921	\$ 27.96	1,598	\$ 24.50	1,635	\$ 22.50
Granted					249	26.11
Exercised	(319)	25.60	(660)	19.33	(282)	14.46
Forfeited/Expired	(21)	31.92	(17)	37.88	(4)	12.28
<b>Outstanding, End of Year</b>	<b>581</b>	<b>29.11</b>	<b>921</b>	<b>27.96</b>	<b>1,598</b>	<b>24.50</b>
Exercisable, End of Year	508	\$ 29.53	654	\$ 28.70	1,085	\$ 23.06
Aggregate Intrinsic Value of Options Exercised (\$000s)	\$ 3,690		\$ 9,124		\$ 4,177	

	September 30,
	<b>At December 31, 2011</b>
Aggregate Intrinsic Value for Options Outstanding (\$000s)	\$ 4,670
Aggregate Intrinsic Value for Options Exercisable (\$000s)	\$ 3,892
Weighted Average Remaining Contractual Life of Outstanding Options	5.6 years
Weighted Average Remaining Contractual Life of Exercisable Options	5.4 years

See summary of stock options in the table below:

Range of Exercise Prices	September 30, Options Outstanding		September 30, Options Exercisable	
	Number of Shares (000s)	Weighted-Average Remaining Contractual Life	Number of Shares (000s)	Weighted-Average Exercise Price
\$17.44 - \$17.84	20	1.3 years	20	\$ 17.75
\$26.11 - \$37.88	561	5.7 years	489	\$ 30.01

**RESTRICTED STOCK UNITS/AWARDS AND PERFORMANCE SHARES**



**Restricted Stock Units**

Restricted stock and stock units are generally granted to non-employee directors. Restricted stock is an award of Common Stock that is subject to forfeiture if the restrictions specified in the award are not satisfied. Stock units are a non-voting unit of measure that is equivalent to one share of Common Stock. The directors may elect to receive stock units in lieu of restricted stock. Restricted stock generally vests over periods ranging from one to three years and is payable in Common Stock. Stock units vest either immediately or over periods ranging from one to three years. The restricted stock units vest immediately upon death, disability, or retirement. In the January following the year the person is no longer a director, Common Stock shares will be issued for the vested stock units. Compensation expense equal to the fair market value on the grant date is recognized over the vesting period. Fully vested but undistributed stock unit awards accrue dividend equivalent stock units based on the fair market value of common shares on the date the dividend is paid.

Common Stock shares totaling 56,705 in 2011, 14,866 in 2010, and 101,765 in 2009 were issued with no additional increase in equity as the expense was previously recognized over the vesting period.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Compensation Committee granted the following stock units to non-employee directors:

May 2011 14,655 stock units at a weighted average fair value of \$37.53 per share,

May 2010 15,620 stock units at a weighted average fair value of \$31.69 per share,

May 2009 21,886 stock units at a weighted average fair value of \$26.73 per share.

**Performance Share Awards**

In 2011, the Compensation Committee granted performance share awards to officers. Half of the performance share awards had a grant date fair value, based on a Monte Carlo simulation, of \$33.73 per share. Those awards will be paid out in shares of UniSource Energy Common Stock based on a comparison of UniSource Energy's cumulative Total Shareholder Return to the Edison Electric Institute Index during the performance period of January 1, 2011 through December 31, 2013. The remaining half had a grant date fair value of \$36.58 per share and will be paid out in shares of UniSource Energy Common Stock based on cumulative net income for the three-year period ending December 31, 2013. The performance shares vest based on the achievement of goals by the end of the performance period; any unearned awards are forfeited. Performance shares are eligible for dividend equivalents during the performance period.

In 2010, the Compensation Committee granted performance share awards to officers. Half of the performance share awards had a grant date fair value, based on a Monte Carlo simulation, of \$31.26 per share. Those awards will be paid out in shares of UniSource Energy Common Stock based on a comparison of UniSource Energy's cumulative Total Shareholder Return to the Edison Electric Institute Index during the performance period of January 1, 2010 through December 31, 2012. The remaining half had a grant date fair value of \$30.52 per share and will be paid out in shares of UniSource Energy Common Stock based on cumulative net income for the three-year period ending December 31, 2012. The performance shares vest based on the achievement of goals by the end of the performance period; any unearned awards are forfeited. Performance shares are eligible for dividend equivalents during the performance period.

In 2009, the Compensation Committee granted performance share awards to officers at a grant date fair value, based on a Monte Carlo simulation, of \$21.62 per share. At December 31, 2011, upon completion of the three-year performance period, 45,642 shares vested based on goal attainment at 75% of targeted UniSource Energy Total Shareholder Return during the performance period compared to the Total Shareholder Return over the same period of an industry or peer group; 23,414 shares were unearned and forfeited. Compensation expense equal to the fair value on the grant date was recognized over the vesting period for the requisite service period.

	September 30, Performance Shares		September 30, Restricted Stock Units	
	Shares (000s)	Weighted- Average Grant-Date Fair Value	Shares (000s)	Weighted- Average Grant-Date Fair Value
Non-vested at January 1, 2011	156	\$ 27.19	16	\$ 31.69
Granted	93	35.26	15	37.53
Vested	(46)	23.41	(16)	31.69
Forfeited	(50)	28.29		

Non-vested at December 31, 2011	153	\$	32.85	15	\$	37.53
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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****SHARE-BASED COMPENSATION EXPENSE (Stock Options, Performance Shares and Restricted Stock Units)**

Annually during 2009 through 2011, UniSource Energy recorded share-based compensation expense of \$3 million, \$2 million of which related to TEP. No share-based compensation was capitalized as part of the cost of an asset. UniSource Energy did not realize a tax deduction from the exercise of share-based payment arrangements in 2011. In each of 2010 and 2009, UniSource Energy realized an actual tax deduction from the exercise of share-based payment arrangements of \$3 million.

At December 31, 2011, the total unrecognized compensation cost related to non-vested share-based compensation was \$2 million, which will be recorded as compensation expense over the remaining vesting periods through December 2013. The total number of shares awarded but not yet issued, including target performance based shares, under the share-based compensation plans at December 31, 2011, was 0.7 million.

**NOTE 11. FAIR VALUE MEASUREMENTS**

The following tables set forth, by level within the fair value hierarchy, UniSource Energy's and TEP's assets and liabilities accounted for at fair value on a recurring basis. These assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. There were no transfers between Levels 1, 2 or 3 for either reporting period.

	September 30, Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, UniSource Energy Significant Other Observable Inputs (Level 2)	September 30, Significant Unobservable Inputs (Level 3)	September 30, Total
<b>December 31, 2011</b>				
<b>- Millions of Dollars -</b>				
<b>Assets</b>				
Cash Equivalents <sup>(1)</sup>	\$ 23	\$	\$	\$ 23
Rabbi Trust Investments to support the Deferred Compensation and SERP Plans <sup>(2)</sup>		16		16
Energy Contracts <sup>(4)</sup>			14	14
<b>Total Assets</b>	<b>23</b>	<b>16</b>	<b>14</b>	<b>53</b>
<b>Liabilities</b>				
Energy Contracts <sup>(4)</sup>		(21)	(24)	(45)
Interest Rate Swaps <sup>(5)</sup>		(12)		(12)
<b>Total Liabilities</b>		<b>(33)</b>	<b>(24)</b>	<b>(57)</b>
<b>Net Total Assets and (Liabilities)</b>	<b>\$ 23</b>	<b>\$ (17)</b>	<b>\$ (10)</b>	<b>\$ (4)</b>



**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	September 30, Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, UniSource Energy Significant Other Observable Inputs (Level 2)	September 30, Significant Unobservable Inputs (Level 3)	September 30, Total
<b>Assets</b>				
Cash Equivalents <sup>(1)</sup>	\$ 38	\$	\$	\$ 38
Rabbi Trust Investments to support the Deferred Compensation and SERP Plans <sup>(2)</sup>		16		16
Collateral Posted <sup>(3)</sup>		3		3
Energy Contracts <sup>(4)</sup>			15	15
<b>Total Assets</b>	<b>38</b>	<b>19</b>	<b>15</b>	<b>72</b>
<b>Liabilities</b>				
Energy Contracts <sup>(4)</sup>		(19)	(25)	(44)
Interest Rate Swaps <sup>(5)</sup>		(10)		(10)
<b>Total Liabilities</b>		<b>(29)</b>	<b>(25)</b>	<b>(54)</b>
<b>Net Total Assets and (Liabilities)</b>	<b>\$ 38</b>	<b>\$ (10)</b>	<b>\$ (10)</b>	<b>\$ 18</b>

	September 30, Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, TEP Significant Other Observable Inputs (Level 2)	September 30, Significant Unobservable Inputs (Level 3)	September 30, Total
<b>Assets</b>				
Cash Equivalents <sup>(1)</sup>	\$ 8	\$	\$	\$ 8
Rabbi Trust Investments to support the Deferred Compensation and SERP Plans <sup>(2)</sup>		16		16
Energy Contracts <sup>(4)</sup>			3	3
<b>Total Assets</b>	<b>8</b>	<b>16</b>	<b>3</b>	<b>27</b>
<b>Liabilities</b>				
Energy Contracts <sup>(4)</sup>		(9)	(3)	(12)

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Interest Rate Swaps <sup>(5)</sup>				(11)				(11)
<b>Total Liabilities</b>				(20)		(3)		(23)
<b>Net Total Assets and (Liabilities)</b>	\$	8	\$	(4)	\$		\$	4

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	September 30, Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, TEP Significant Other Observable Inputs (Level 2)	September 30, Significant Unobservable Inputs (Level 3)	September 30, Total
<b>Assets</b>				
Cash Equivalents <sup>(1)</sup>	\$ 21	\$	\$	\$ 21
Rabbi Trust Investments to support the Deferred Compensation and SERP Plans <sup>(2)</sup>		16		16
Energy Contracts <sup>(4)</sup>			3	3
<b>Total Assets</b>	<b>21</b>	<b>16</b>	<b>3</b>	<b>40</b>
<b>Liabilities</b>				
Energy Contracts <sup>(4)</sup>		(7)	(2)	(9)
Interest Rate Swaps <sup>(5)</sup>		(10)		(10)
<b>Total Liabilities</b>		<b>(17)</b>	<b>(2)</b>	<b>(19)</b>
<b>Net Total Assets and (Liabilities)</b>	<b>\$ 21</b>	<b>\$ (1)</b>	<b>\$ 1</b>	<b>\$ 21</b>

(1) Cash Equivalents are based on observable market prices and include the fair value of commercial paper, money market funds and certificates of deposit. These amounts are included in Cash and Cash Equivalents and Investments and Other Property Other on the balance sheets.

(2) Rabbi Trust Investments include amounts held in mutual and money market funds related to deferred compensation and SERP benefits. The valuation is based on quoted prices traded in active markets. These investments are included in Investments and Other Property Other on the balance sheets.

(3) Collateral provided for energy contracts with counterparties to reduce credit risk exposure. Collateral Posted is included in Current Assets Other on the UniSource Energy balance sheet.

(4) Energy Contracts include gas swap agreements (Level 2), gas collars (Level 3), forward power purchase and sales contracts (Level 3), and forward power purchase contracts indexed to gas (Level 3), entered into to reduce exposure to energy price risk. These contracts are included in Derivative Instruments on the balance sheets. The valuation techniques are described below. See Note 16.

(5) Interest Rate Swaps are valued based on the 3-month or 6-month LIBOR index or the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap index. These interest rate swaps are included in Derivative Instruments on the balance sheets.

**Energy Contracts**



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We primarily apply the market approach for recurring fair value measurements. When we have observable inputs for substantially the full term of the asset or liability such as gas swap derivatives valued using New York Mercantile Exchange (NYMEX) pricing, adjusted for basis differences we categorize the instrument in Level 2. We categorize derivatives in Level 3 using an aggregate pricing service or published prices that represent a consensus reporting of multiple brokers.

For both power and gas prices, TEP and UNS Electric obtain quotes from brokers, major market participants, exchanges or industry publications and rely on our own price experience from active transactions in the market. We primarily use one set of quotations each for power and for gas and then validate those prices using other sources. We believe that the market information provided is reflective of market conditions as of the time and date indicated.

Published prices for energy derivative contracts may not be available due to the nature of contract delivery terms including: delivery periods during non-standard time blocks, delivery during only a few months of a given year when prices are quoted only for the annual average, or delivery at illiquid delivery points. In these cases, we use percentage multipliers to value non-standard time blocks, we apply historical price curve relationships to calendar year quotes, and we include adjustments for transmission and line losses to value contracts at illiquid delivery points. We also consider the impact of counterparty credit risk using current and historical default and recovery rates as well as our own credit risk using market credit default swap data. We review these assumptions quarterly.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

TEP estimates the fair value of its purchase power call option using an internal pricing model which includes assumptions about market risks such as liquidity, volatility, and contract valuation. This model also considers credit and non-performance risk.

UNS Gas estimates the fair value of its gas collar using the Black-Scholes-Merton option pricing model which includes assumptions about future prices of energy, interest rates, volatility, credit worthiness and credit spread.

UniSource Energy's and TEP's assessments of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The following tables set forth a reconciliation of changes in the fair value of assets and liabilities classified as Level 3 in the fair value hierarchy:

	September 30, Year Ended December 31, 2011	September 30, Year Ended December 31, 2011
	UniSource Energy	TEP Energy Contracts
	-Millions of Dollars-	
<b>Balance as of December 31, 2010</b>	\$ (10)	\$ 1
Gains and (Losses) (Realized/Unrealized) Recorded to:		
Net Regulatory Assets - Derivative Instruments	(9)	2
Other Comprehensive Income	(1)	(1)
Settlements	10	(2)
<b>Balance as of December 31, 2011</b>	\$ (10)	\$
Total gains (losses) attributable to the change in unrealized gains or losses relating to assets/liabilities still held at the end of the period	\$ (9)	\$

**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	September 30,	September 30,	September 30,	September 30,
		Year Ended		
		December 31, 2010		
		UniSource Energy		TEP
	Energy	Equity	Total	Energy
	Contracts	Investments <sup>(1)</sup>		Contracts
		- Millions of Dollars -		
<b>Balance as of December 31, 2009</b>	\$ (13)	\$ 6	\$ (7)	\$ (4)
Gains and (Losses) (Realized/Unrealized) Recorded to:				
Net Regulatory Assets - Derivative Instruments	(9)		(9)	9
Other Comprehensive Income	(1)		(1)	(1)
Other Expense		(6)	(6)	
Settlements	13		13	(3)
<b>Balance as of December 31, 2010</b>	\$ (10)	\$	\$ (10)	\$ 1

Total gains (losses) attributable to the change in unrealized gains or losses relating to assets/liabilities still held at the end of the period

\$ (4)	\$	\$ (4)	\$ 5
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(1) In December 2010, Millennium reduced to zero the book value of its equity investments classified as Level 3 in the fair value hierarchy.  
**Financial Instruments Not Carried at Fair Value**

The market price received when selling an asset or paid to transfer a liability at the measurement date is the fair value of a financial instrument. We use the following methods and assumptions for estimating the fair value of our financial instruments:

The carrying amounts of our current assets and liabilities, including Current Maturities of Long-Term Debt, and amounts outstanding under our credit agreements approximate their fair value due to the short-term nature of these instruments; with the exception of \$50 million of UNS Gas Senior Unsecured Notes, outstanding at December 31, 2010, with a make-whole provision on a call premium that have a fair value of \$51 million. These items have been excluded from the table below.

Investments in Lease Debt and Equity: TEP calculates the present value of remaining cash flows at the balance sheet date using current market rates for instruments with similar characteristics with respect to credit rating and time-to-maturity. We also incorporate the impact of counterparty credit risk using market credit default swap data. The fair value of TEP's Investment in Lease Equity decreased significantly during the fourth quarter of 2011 based on the recent Springerville Unit 1 appraisal. No impairment was recorded as TEP expects to recover the full carrying value in Retail Rates.

Long-Term Debt: UniSource Energy and TEP use quoted market prices, where available, or calculate the present value of remaining cash flows at the balance sheet date using current market rates for bonds with similar characteristics with respect to credit rating and time-to-maturity. TEP considers the principal amounts of variable rate debt outstanding to be reasonable estimates of their fair value. We also incorporate the impact of our own credit risk using a credit default swap rate when determining the fair value of long-term debt.



**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The use of different estimation methods and/or market assumptions may yield different estimated fair value amounts. The amount recorded on the balance sheet (carrying value) and the estimated fair values of our financial instruments included the following:

	September 30, 2011 Carrying Value	September 30, December 31, 2010 Fair Value	September 30, 2010 Carrying Value	September 30, 2010 Fair Value
-Millions of Dollars-				
<b>Assets:</b>				
TEP Investment in Lease Debt and Equity	\$ 66	\$ 50	\$ 105	\$ 111

**Liabilities:**

Long-Term Debt				
TEP	1,080	1,061	1,004	862
UniSource Energy	1,517	1,543	1,353	1,238

TEP intends to hold the \$29 million investment in Springerville Lease Debt Securities to maturity. This investment is stated at amortized cost, which means the purchase cost has been adjusted for the amortization of the premium and discount to maturity.

**NOTE 12. UNISOURCE ENERGY EARNINGS PER SHARE (EPS)**

We compute basic EPS by dividing Net Income by the weighted average number of common shares outstanding during the period. Except when the effect would be anti-dilutive, the diluted EPS calculation includes the impact of shares that could be issued upon exercise of outstanding stock options; contingently issuable shares under equity-based awards or common shares that would result from the conversion of convertible notes. The numerator in calculating diluted EPS is Net Income adjusted for the interest on Convertible Senior Notes (net of tax) that would not be paid if the notes were converted to common shares.

The following table shows the effects of potentially dilutive common stock on the weighted average number of shares:

	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009
-Thousands of Dollars-			
<b>Numerator:</b>			
Net Income	\$ 109,975	\$ 112,984	\$ 105,901
Income from Assumed Conversion of Convertible Senior Notes	4,390	4,390	4,390
<b>Adjusted Numerator</b>	\$ 114,365	\$ 117,374	\$ 110,291

-Thousands of Shares-

**Denominator:**

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Weighted Average Shares of Common Stock Outstanding:

Common Shares Issued	36,780	36,200	35,653
Fully Vested Deferred Stock Units	129	123	105
Participating Securities	53	92	100
<b>Total Weighted Average Shares of Common Stock Outstanding and Participating Securities Basic</b>	<b>36,962</b>	<b>36,415</b>	<b>35,858</b>
Effect of Diluted Securities:			
Convertible Senior Notes	4,281	4,178	4,093
Options and Stock Issuable under Share Based Compensation Plans	366	448	499
<b>Total Shares Diluted</b>	<b>41,609</b>	<b>41,041</b>	<b>40,450</b>

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table shows the number of stock options excluded from the diluted EPS computation because the stock option's exercise price was greater than the average market price of the Common Stock:

	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009
	-Thousands of Shares-		
Stock Options Excluded from the Diluted EPS Computation	153	212	395

In January 2012, holders of approximately \$33 million of Convertible Senior Notes converted their interests into approximately 964,000 shares of UniSource Energy Common Stock. This conversion of convertible notes to common stock will have a minimal impact on diluted EPS as the dilutive effect of the convertible notes has been reflected in the diluted EPS computation.

**NOTE 13. MILLENNIUM INVESTMENTS**

In 2010, Millennium recorded impairment losses of \$10 million reducing the book value of its unconsolidated equity and cost method investments to zero. Millennium received notification of valuation changes and ownership percentage reductions as projects lost viability and funding failed. In addition, Millennium sold a wholly-owned subsidiary, and recorded a gain of less than \$1 million. Gains and losses were included in Other Income or Other Expense on UniSource Energy's income statements. Millennium also wrote off \$3 million of Deferred Tax Assets related to its investments.

In 2009, Millennium sold an equity investment and recorded a \$6 million gain on the sale which is included in Other Income on UniSource Energy's income statements. Millennium received an upfront payment of \$5 million in 2009 and a \$15 million, three-year, 6%, secured note receivable due in June 2012. Principal on the note is due at maturity; interest on the note is due annually on December 31. The \$15 million note is included in Current Asset - Other on UniSource Energy's balance sheet.

**NOTE 14. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

The following recently issued accounting standards are not yet reflected in the financial statements:

The Financial Accounting Standards Board (FASB) issued authoritative guidance that will eliminate the current option to report other comprehensive income in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement, or in two separate but consecutive statements. We will be required to comply in the first quarter of 2012 and plan to present a separate statement of other comprehensive income.

The FASB issued authoritative guidance that changed some fair value measurement principles and disclosure requirements. The most significant disclosure change is expansion of required information for unobservable inputs. We will be required to comply in the first quarter of 2012, and we do not expect this pronouncement to have a material impact on the valuation techniques used to estimate the fair value of assets and liabilities.

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The FASB issued authoritative guidance that will require entities to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In addition, the standard requires disclosure of collateral received and posted in connection with master netting arrangements. We will be required to comply in the first quarter of 2013.

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 15. SUPPLEMENTAL CASH FLOW INFORMATION**

A reconciliation of net income to net cash flows from operating activities follows:

	September 30, 2011	September 30, UniSource Energy Years Ended December 31, 2010	September 30, 2009
	-Thousands of Dollars-		
<b>Net Income</b>	\$ 109,975	\$ 112,984	\$ 105,901
<b>Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities</b>			
Depreciation Expense	133,832	128,215	144,960
Amortization Expense	30,983	28,094	31,058
Depreciation and Amortization Recorded to Fuel and Other O&M Expense	6,140	5,432	4,929
Amortization of Deferred Debt-Related Costs included in Interest Expense	3,985	3,753	4,171
Provision for Retail Customer Bad Debts	2,072	3,724	3,583
Use of Renewable Energy Credits for Compliance	5,695	4,745	
California Power Exchange Provision for Wholesale Revenue Refunds Refunds			4,172
Deferred Income Taxes	75,588	28,142	57,452
Deferred Tax Valuation Allowance	(73)	7,510	
Pension and Postretirement Expense	21,202	19,688	23,594
Pension and Postretirement Funding	(28,775)	(27,742)	(30,078)
Share Based Compensation Expense	2,599	2,751	2,779
Excess Tax Benefit from Stock Options Exercised		(3,338)	(3,256)
Allowance for Equity Funds Used During Construction	(4,496)	(4,232)	(4,113)
CTC Revenue Refunded	(35,958)	(10,095)	(12,726)
Decrease to Reflect PPFAC/PGA Recovery	(4,932)	(29,622)	(14,553)
Gain on Settlement of El Paso Electric Dispute	(7,391)		
Loss/(Gain) on Millennium's Investments		9,936	(4,730)
Changes in Assets and Liabilities which Provided (Used)			
Cash Exclusive of Changes Shown Separately			
Accounts Receivable	2,743	(8,851)	6,458
Materials and Fuel Inventory	(20,864)	21,744	(24,621)
Accounts Payable	7,397	2,661	(8,243)
Income Taxes	(2,739)	24,470	11,443
Interest Accrued	14,344	14,354	15,956
Current Regulatory Liabilities	2,644	2,788	10,009
Taxes Other Than Income Taxes	2,857	2,442	(48)
Other	20,492	7,367	23,213
<b>Net Cash Flows Operating Activities</b>	<b>\$ 337,320</b>	<b>\$ 346,920</b>	<b>\$ 347,310</b>

**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	September 30, 2011	September 30, TEP Years Ended December 31, 2010	September 30, 2009
	-Thousands of Dollars-		
<b>Net Income</b>	\$ 85,334	\$ 108,260	\$ 90,688
<b>Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities</b>			
Depreciation Expense	104,894	99,510	116,970
Amortization Expense	34,650	32,196	35,931
Depreciation and Amortization Recorded to Fuel and Other O&M Expense	4,509	3,855	3,439
Amortization of Deferred Debt-Related Costs included in Interest Expense	2,378	2,146	2,364
Provision for Retail Customer Bad Debts	1,447	2,506	2,342
Use of Renewable Energy Credits for Compliance	5,190	4,245	
California Power Exchange Provision for Wholesale Revenue Refunds Refunds			4,172
Deferred Income Taxes	59,309	24,897	45,678
Pension and Postretirement Expense	18,816	17,454	21,294
Pension and Postretirement Funding	(25,878)	(25,672)	(28,330)
Share Based Compensation Expense	2,027	2,131	2,121
Allowance for Equity Funds used During Construction	(3,842)	(3,567)	(3,516)
CTC Revenue Refunded	(35,958)	(10,095)	(12,726)
Decrease to Reflect PPFAC Recovery	(6,165)	(21,541)	(18,186)
Gain on Settlement of El Paso Electric Dispute	(7,391)		
Changes in Assets and Liabilities which Provided (Used)			
Cash Exclusive of Changes Shown Separately			
Accounts Receivable	4,809	(5,156)	(951)
Materials and Fuel Inventory	(19,789)	20,920	(23,794)
Accounts Payable	13,166	(447)	(10,456)
Income Taxes	(5,582)	20,203	(2,714)
Interest Accrued	14,268	14,431	16,142
Current Regulatory Liabilities	303	2,500	10,555
Taxes Other Than Income Taxes	2,282	1,469	725
Other	19,517	12,238	16,316
<b>Net Cash Flows Operating Activities</b>	<b>\$ 268,294</b>	<b>\$ 302,483</b>	<b>\$ 268,064</b>

Proceeds from the issuance of the 2010 Coconino Bonds were deposited with a trustee and were used in 2010 to redeem \$37 million of pollution control bonds. TEP had no cash receipts or payments as a result of this transaction.

Proceeds from the issuance of \$100 million of Pima County tax-exempt IDBs were deposited in a construction fund with a trustee. TEP drew down funds as qualified expenditures were incurred. The \$11 million remaining in the construction fund at December 31, 2010 affected recognized assets and liabilities but did not result in cash receipts or payments. TEP drew down the remaining funds in the construction fund by March 2011.

Proceeds from the issuance of \$95 million of unsecured fixed rate IDBs in 2009 were deposited with a trustee and were used in 2009, to redeem approximately \$95 million of unsecured fixed rate IDBs. TEP had no cash receipts or payments as a result of this transaction.

Other non-cash investing and financing activities that affected recognized assets and liabilities but did not result in cash receipts or payments were as follows:

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009
	-Thousands of Dollars-		
(Decrease)/Increase to Utility Plant Accruals <sup>(1)</sup>	\$ (2,154)	\$ 8,514	\$ 1,082
Net Cost of Removal of Interim Retirements <sup>(2)</sup>	31,626	4,592	43,381
Capital Lease Obligations <sup>(3)</sup>	15,162	16,630	17,984
Asset Retirement Obligations <sup>(4)</sup>	7,638	(1,872)	
UED Secured Term Loan Prepayments <sup>(5)</sup>		3,188	3,625

- (1) The non-cash additions to Utility Plant represent accruals for capital expenditures.
- (2) The non-cash net cost of removal of interim retirements represents an accrual for future asset retirement obligations that does not impact earnings.
- (3) The non-cash change in capital lease obligations represents interest accrued for accounting purposes in excess of interest payments.
- (4) The non-cash additions to asset retirement obligations and related capitalized assets represent revision of estimated asset retirement cost due to changes in timing and amount of expected future asset retirement obligations.
- (5) The non-cash UED Secured Term Loan prepayment represents deposits applied to \$30 million of loan principal.

**NOTE 16. ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES****FINANCIAL IMPACT OF DERIVATIVES****Cash Flow Hedges**

At December 31, 2011, UniSource Energy and TEP had liabilities related to their cash flow hedges of \$14 million and \$12 million at December 31, 2010.

The net after-tax unrealized gains and losses on derivative activities reported in AOCI were as follows:

September 30, 2011	September 30, UniSource Energy 2010	September 30, Years Ended December 31, 2009	September 30, 2011	September 30, TEP 2010	September 30, 2009
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-Millions of Dollars-

Net After-Tax Unrealized									
Losses	\$	4	\$	6	\$	4	\$	6	\$

**Regulatory Treatment of Commodity Derivatives**

The following table discloses unrealized gains and losses on energy contracts that are recoverable through the PPFAC or PGA on the balance sheet as a regulatory asset or a regulatory liability rather than as a component of AOCI or in the income statements.

	September 30, 2011	September 30, UniSource Energy 2010	September 30, Years Ended December 31, 2009	September 30, 2011	September 30, TEP 2010	September 30, 2009				
Increase (Decrease) to Regulatory Assets	\$	2	\$	(29)	\$	2	\$	(4)	\$	(11)

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**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The fair value of derivative assets and liabilities were as follows:

	September 30, UniSource Energy		September 30, TEP	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	-Millions of Dollars-			
Assets	\$ 14	\$ 15	\$ 3	\$ 3
Liabilities	(43)	(42)	(9)	(7)
Net Assets (Liabilities)	\$ (29)	\$ (27)	\$ (6)	\$ (4)

The realized losses on settled gas swaps that are fully recoverable through the PPFAC or PGA were as follows:

	September 30, 2011	September 30, UniSource Energy 2010	September 30, Years Ended December 31, 2009	September 30, 2011	September 30, TEP 2010	September 30, 2009
	-Millions of Dollars-					
Realized Losses on Gas Swaps	\$ 19	\$ 23	\$ 51	\$ 7	\$ 9	\$ 29

At December 31, 2011, UniSource Energy and TEP had contracts that will settle through the third quarter of 2015.

**Other Commodity Derivatives**

The settlement of forward purchased power and sales contracts that do not result in physical delivery were reflected in the financial statements of UniSource Energy and TEP as follows:

	September 30, 2011	September 30, 2010	September 30, 2009
	-Millions of Dollars-		
Recorded in Wholesale Sales:			
Forward Power Sales	\$ 10	\$ 27	\$ 20
Forward Power Purchases	(15)	(34)	(18)
<b>Total Sales and Purchases Not Resulting in Physical Delivery</b>	<b>\$ (5)</b>	<b>\$ (7)</b>	<b>\$ 2</b>

## **DERIVATIVE VOLUMES**

At December 31, 2011, UniSource Energy had gas swaps totaling 14,856 Billion British thermal units (GBtu) and power contracts totaling 3,147 Gigawatt-hours (GWh) while TEP had gas swaps totaling 6,855 GBtu and power contracts totaling 815 GWh. At December 31, 2010, UniSource Energy had gas swaps totaling 14,973 GBtu and power contracts totaling 4,807 GWh while TEP had gas swaps totaling 6,424 GBtu and power contracts totaling 1,144 GWh. We account for gas swaps and power contracts as derivatives.

## **CREDIT RISK ADJUSTMENT**

When the fair value of our derivative contracts is reflected as an asset, the counterparty owes us and this creates credit risk. We also consider the impact of our own credit risk on instruments that are in a net liability position. The impact of counterparty credit risk and our own credit risk on the fair value of derivative asset contracts was less than \$0.5 million at December 31, 2011, and December 31, 2010.

## **CONCENTRATION OF CREDIT RISK**

The use of contractual arrangements to manage the risks associated with changes in energy commodity prices creates credit risk exposure resulting from the possibility of non-performance by counterparties pursuant to the terms of their contractual obligations. We enter into contracts for the physical delivery of energy and gas which contain remedies in the event of non-performance by the supply counterparties. In addition, volatile energy prices can create significant credit exposure from energy market receivables and mark-to-market valuations.

We have contractual agreements for energy procurement and hedging activities that contain certain provisions requiring each company to post collateral under certain circumstances. These circumstances include: exposures

**Table of Contents****UNISOURCE ENERGY, TEP AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

in excess of unsecured credit limits provided to TEP, UNS Gas or UNS Electric; credit rating downgrades; or a failure to meet certain financial ratios. In the event that such credit events were to occur, we would have to provide certain credit enhancements in the form of cash or letters of credit to fully collateralize our exposure to these counterparties.

The following table shows the sum of the fair value of all derivative instruments under contracts with credit-risk related contingent features that are in a net liability position at December 31, 2011. It also shows cash collateral and letters of credit posted, and additional collateral to be posted if credit-risk related contingent features were triggered.

	September 30, TEP December 31, 2011 -Millions of Dollars-	September 30, UniSource Energy December 31, 2011 -Millions of Dollars-
Net Liability Position	\$ 16	\$ 64
Cash Collateral Posted		
Letters of Credit	1	6
Additional Collateral to Post if Contingent Features Triggered	16	61

As of December 31, 2011, TEP had \$17 million of credit exposure to other counterparties creditworthiness related to its wholesale marketing and gas hedging activities; and UNS Electric had \$1 million of such exposure related to its supply and hedging contracts. TEP had four counterparties which individually comprise greater than 10% of the total credit exposure and UNS Electric had one. At December 31, 2011, UNS Gas had no exposure to other counterparties creditworthiness.

**NOTE 17. QUARTERLY FINANCIAL DATA (UNAUDITED)**

Our quarterly financial information is unaudited but, in management's opinion, includes all adjustments necessary for a fair presentation. Our utility businesses are seasonal in nature. Peak sales periods for TEP and UNS Electric generally occur during the summer while UNS Gas sales generally peak during the winter. Accordingly, comparisons among quarters of a year may not represent overall trends and changes in operations.

	September 30, First	September 30, Second	September 30, UniSource Energy Third	September 30, Fourth
	-Thousands of Dollars-			
	(Except Per Share Amounts)			
<b>2011</b>				
Operating Revenue	\$ 344,766	\$ 369,673	\$ 450,948	\$ 344,128
Operating Income	44,820	71,289	123,760	41,803
Net Income	13,472	28,604	59,712	8,187
Basic EPS	0.37	0.77	1.61	0.22
Diluted EPS	0.35	0.71	1.46	0.22



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<b>2010</b>								
Operating Revenue	\$	318,849	\$	339,114	\$	438,830	\$	357,173
Operating Income		52,955		72,301		123,524		48,334
Net Income		20,178		25,889		55,665		11,252
Basic EPS		0.56		0.71		1.52		0.31
Diluted EPS		0.52		0.66		1.38		0.30

EPS is computed independently for each of the quarters presented. Therefore, the sum of the quarterly EPS amounts may not equal the total for the year.

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	September 30, First	September 30, Second	September 30, Third	September 30, Fourth
	TEP			
	-Thousands of Dollars-			
<b>2011</b>				
Operating Revenue	\$ 239,588	\$ 295,233	\$ 369,846	\$ 251,719
Operating Income	27,792	62,497	111,479	27,613
Net Income	4,704	25,157	53,912	1,561
<b>2010</b>				
Operating Revenue	\$ 231,083	\$ 274,694	\$ 354,638	\$ 264,852
Operating Income	38,248	63,901	116,055	35,827
Net Income	10,490	27,941	59,704	10,125

The following tables reflect the quarterly impact of revisions recorded in the second and third quarters of 2011 (See Note 1):

	Sept	Sept	Sept	Sept	Sept	Sept	Sept	Sept
	2010							
	March 31,		June 30,		September 30,		December 31,	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars- (Except Per Share Amounts)							
	UniSource Energy							
<b>Income Statement</b>								
Net Income	\$ 19,972	\$ 20,178	\$ 25,886	\$ 25,889	\$ 54,883	\$ 55,665	\$ 11,082	\$ 11,252
Basic EPS	0.55	0.56	0.71	0.71	1.50	1.52	0.30	0.31
Diluted EPS	0.52	0.52	0.66	0.66	1.36	1.38	0.29	0.30
<b>TEP</b>								
<b>Income Statement</b>								
Net Income	\$ 10,349	\$ 10,490	\$ 27,938	\$ 27,941	\$ 58,993	\$ 59,704	\$ 9,999	\$ 10,125

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## Schedule Valuation and Qualifying Accounts

**Schedule II Valuation and Qualifying Accounts UniSource Energy**

Description	September 30,			
	Beginning Balance	Additions-Charged to Income	Deductions	Ending Balance
Year Ended December 31,	-Millions of Dollars-			
<b>Reserve for Uncollectible Accounts <sup>(1)</sup></b>				
2011	\$ 13	\$ 5	\$ 2	\$ 16
2010	\$ 13	\$ 4	\$ 4	\$ 13
2009	\$ 27	\$ 4	\$ 18	\$ 13
<b>Deferred Tax Assets Valuation Allowance <sup>(2)</sup></b>				
2011	\$ 8	\$	\$ 1	\$ 7
2010	\$	\$ 8	\$	\$ 8
2009	\$	\$	\$	\$
<b>Other <sup>(3)</sup></b>				
2011	\$ 4			\$ 6
2010	\$ 2			\$ 4
2009	\$ 4			\$ 2

<sup>(1)</sup> TEP, UNS Gas and UNS Electric record additions to the Reserve for Uncollectible Accounts based on historical experience and any specific customer collection issues identified. Deductions principally reflect amounts charged off as uncollectible, less amounts recovered. Amounts include reserves for trade receivables, wholesale sales and in-kind transmission imbalances.

<sup>(2)</sup> Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred income tax asset will not be realized. Management believes that it is more likely than not that we will not be able to generate future capital gains to offset the capital losses related to an unregulated investment loss deferred tax asset. As a result, an \$8 million valuation allowance was recorded against the deferred tax asset as of December 31, 2010.

<sup>(3)</sup> Principally reserves for sales tax audits, litigation and damages billable to third parties.

**Schedule II Valuation and Qualifying Accounts TEP**

Description	September 30,			
	Beginning Balance	Additions-Charged to Income	Deductions	Ending Balance
Year Ended December 31,	-Millions of Dollars-			
<b>Reserve for Uncollectible Accounts <sup>(1)</sup></b>				
2011	\$ 11	\$ 4	\$ 1	\$ 14
2010	\$ 11	\$ 3	\$ 3	\$ 11
2009	\$ 24	\$ 2	\$ 15	\$ 11

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Other <sup>(2)</sup>				
2011	\$	3	\$	4
2010	\$		\$	3
2009	\$	4	\$	

(1) TEP records additions to the Reserve for Uncollectible Accounts based on historical experience and any specific customer collection issues identified. Deductions principally reflect amounts charged off as uncollectible, less amounts recovered. Amounts include reserves for trade receivables, wholesales sales and in-kind transmission imbalances.

(2) Principally reserves for sales tax audits, litigation and damages billable to third parties.

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

UniSource Energy and TEP's Chief Executive Officer and Chief Financial Officer supervised and participated in UniSource Energy and TEP's evaluation of their disclosure controls and procedures as such term is defined under Rule 13(a) 15(e) or Rule 15(d) 15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of December 31, 2011. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in UniSource Energy and TEP's periodic reports filed or submitted under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures are also designed to ensure that information required to be disclosed by UniSource Energy and TEP in the reports that they file or submit under the Act is accumulated and communicated to management, including the principal executive and principal financial officers, or person performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon the evaluation performed, UniSource Energy and TEP's Chief Executive Officer and Chief Financial Officer concluded that UniSource Energy and TEP's disclosure controls and procedures are effective.

While UniSource Energy and TEP continually strive to improve their disclosure controls and procedures to enhance the quality of their financial reporting, there has been no change in UniSource Energy or TEP's internal control over financial reporting during the fourth quarter of 2011, that has materially affected, or is reasonably likely to materially affect, UniSource Energy or TEP's internal control over financial reporting.

UniSource Energy's and TEP's Management's Reports on Internal Control Over Financial Reporting Under 404 of Sarbanes-Oxley appear as the first two reports under Item 8 in UniSource Energy's and TEP's 2011 Annual Report on Form 10-K, the Report of Independent Registered Public Accounting Firm for UniSource Energy appears as the third report under Item 8, and the Report of Independent Registered Public Accounting Firm for TEP appears as the fourth report under Item 8.

**ITEM 9B. OTHER INFORMATION**

None.

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**Table of Contents****PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF THE REGISTRANTS****Directors UniSource Energy**

<b>Name</b>	<b>September 30, Age</b>	<b>September 30, Board Committee*</b>	<b>September 30, Director Since</b>
Paul J. Bonavia	60	None	2009
Lawrence J. Aldrich	59	2,3,5	2000
Barbara M. Baumann	56	1,2,4	2005
Larry W. Bickle	66	3,4,5	1998
Harold W. Burlingame	71	2,3,5	1998
Robert A. Elliott	56	1,2,3,4,5	2003
Daniel W.L. Fessler	70	1,3,5	2005
Louise L. Francesconi	59	1,2,4	2008
Warren Y. Jobe	71	1,2,4	2001
Ramiro G. Peru	56	1,2,4	2008
Gregory A. Pivrotto	59	1,3,4	2008
Joaquin Ruiz	59	2,3,5	2005

\* Board Committees

(1) Audit

(2) Compensation

(3) Corporate Governance and Nominating

(4) Finance

(5) Environmental, Safety and Security

**Paul J. Bonavia**

Mr. Bonavia has served as Chairman and Chief Executive Officer of UniSource Energy and TEP since January 2009; he also served as President from January 2009 to December 2011. Prior to joining UniSource Energy, Mr. Bonavia served as President of the Utilities Group of Xcel Energy. Mr. Bonavia previously served as President of Xcel Energy's Commercial Enterprises business unit and President of the company's Energy Markets unit.

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***Lawrence J. Aldrich***

President and Chief Executive Officer of University Physicians Healthcare from 2009-2010. President of Aldrich Capital Company since January 2007; Chief Operating Officer of The Critical Path Institute from 2005-2007; General Partner of Valley Ventures, LP from September 2002 to December 2005; Managing Director and Founder of Tucson Ventures, LLC, from February 2000 to September 2002.

***Barbara M. Baumann***

President and Owner of Cross Creek Energy Corporation since 2003; Executive Vice President of Associated Energy Managers, LLC from 2000 to 2003; former Vice President of Amoco Production Company; Director of SM Energy Company since 2002; member of the Board of Trustees of the Putnam Mutual Funds since 2010.

***Larry W. Bickle***

Director of SM Energy Company since 1994; Retired private equity investor; Managing Director of Haddington Ventures, LLC from 1997 to 2007. Non-executive Chairman of Quantum Natural Gas Strategies, LLC since 2008.

***Harold W. Burlingame***

Executive Vice President of AT&T from 1986-2001; Senior Executive Advisor for ATT Wireless from 2001-2005; Chairman of ORC Worldwide from 2004-2010; President of IRC Foundation since December 2010; Director of Cornerstone On Demand since 2006.

***Robert A. Elliott***

President and owner of The Elliott Accounting Group since 1983; Director and Corporate Secretary of Southern Arizona Community Bank from 1998-2010; Television Analyst/Pre- game Show Co-host for Fox Sports Arizona from 1998-2009; Chairman of the Board of

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Tucson Metropolitan Chamber of Commerce from 2002 to 2003; Chairman of the Board of Tucson Urban League from 2003 to 2004; Chairman of the Board of the Tucson Airport Authority from January 2006 to January 2007; Director of AAA since 2007; Director of the NBA Retired Players Association since 2010; and Director of the University of Arizona Foundation.

***Daniel W.L. Fessler***

President of the California Public Utility Commission from 1991-1996; Professor Emeritus of the University of California since 1994; Of counsel for the law firm of Holland & Knight from 2003-2007; Partner in the law firm of LeBoeuf, Lamb, Greene & MacRae LLP from 1997 to 2003; previously served on the UniSource Energy and TEP boards of directors from 1998 to 2003; Managing Principal of Clear Energy Solutions, LLC since December 2004.

***Louise L. Francesconi***

Retired President of Raytheon Missile Systems; Director of Stryker Corporation since July 2006; Chairman of the Board of Trustees for TMC Healthcare; Director of Global Solar Energy, Inc. since 2008.

***Warren Y. Jobe***

Certified Public Accountant (licensed, but not practicing); Senior Vice President of Southern Company from 1998 to 2001; Executive Vice President and Chief Financial Officer of Georgia Power Company from 1987-1998; Director of WellPoint Health Networks, Inc. from 2003 to December 2004; Director of WellPoint, Inc. since December 2004; Trustee of RidgeWorth Funds since 2004. Director of Home Banc Corp. from 2005-2009.

***Ramiro G. Peru***

Executive Vice President and Chief Financial Officer of Swift Corporation, a trucking company, from June 2007 to December 2007; Executive Vice President and Chief Financial Officer of Phelps Dodge Corporation from October 2004 to March 2007; Senior Vice President and Chief Financial Officer of Phelps Dodge Corporation from May 1999 to September 2004; Director of WellPoint Health Networks, Inc. from 2003 to December 2004; Director of WellPoint, Inc. since December 2004; Director of Southern Peru Copper Corporation from 2002 to 2004.

***Gregory A. Pivrotto***

President and Chief Executive Officer and Director of University Medical Center Corporation from 1994-2010; Certified Public Accountant since 1978; Director of Arizona Hospital & Healthcare Association from 1997 to 2005. Director of Tucson Airport Authority since 2008; Member of the Advisory Board of Harris Bank since 2010.

***Joaquin Ruiz***

Professor of Geosciences, University of Arizona since 1983; Dean, College of Science, University of Arizona since 2000; Executive Dean of the University of Arizona College of Letters, Arts and Science since 2009.

**Directors TEP**

Name	September 30, Age	September 30, Director Since
Paul J. Bonavia	60	2009
Michael J. DeConcini	47	2009
David G. Hutchens	45	2011
Kevin P. Larson	55	2009



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***Paul J. Bonavia***

Mr. Bonavia has served as Chairman and Chief Executive Officer of UniSource Energy and TEP since January 2009; he also served as President from January 2009 to December 2011. Prior to joining UniSource Energy, Mr. Bonavia served as President of the Utilities Group of Xcel Energy. Mr. Bonavia previously served as President of Xcel Energy's Commercial Enterprises business unit and President of the company's Energy Markets unit.

***Michael J. DeConcini***

Mr. DeConcini has served as Senior Vice President, Operations of UniSource Energy since May 2010 and Senior Vice President and Chief Operating Officer of TEP from May

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2009 to December 2011 when his title at TEP was changed to Senior Vice President, Operations. Mr. DeConcini joined TEP in 1988 and was elected Senior Vice President and Chief Operating Officer of the Energy Resources business unit of TEP, effective January 1, 2003. In August 2006, he was named Senior Vice President and Chief Operating Officer, Transmission and Distribution.

***David G. Hutchens***

Mr. Hutchens has served as President of UniSource Energy and TEP since December 2011. In March 2011, Mr. Hutchens was named Executive Vice President of UniSource Energy and TEP. In May 2009, Mr. Hutchens was named Vice President of Energy Efficiency and Resource Planning. In January 2007, Mr. Hutchens was elected Vice President of Wholesale Energy at UniSource Energy and TEP. Mr. Hutchens joined TEP in 1995.

***Kevin P. Larson***

Mr. Larson has served as Senior Vice President and Chief Financial Officer of UniSource Energy and TEP since September 2005. Mr. Larson is also Treasurer of UniSource Energy. Mr. Larson joined TEP in 1985 and thereafter held various positions in its finance department and investment subsidiaries. He was elected Treasurer in August 1994 and Vice President in March 1997. In October 2000, he was elected Vice President and Chief Financial Officer.

**Executive Officers of UniSource Energy and TEP**

*See Item 1. Business, Executive Officers of the Registrants.*

Information required by Items 401, 405, 406 and 407 (c)(3), (d)(4) and (d)(5) of SEC Regulation S-K will be included in UniSource Energy's Proxy Statement relating to the 2012 Annual Meeting of Shareholders, which will be filed with the SEC not later than 120 days after December 31, 2011, which information is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

Information concerning Executive Compensation will be contained in UniSource Energy's Proxy Statement relating to the 2012 Annual Meeting of Shareholders, which will be filed with the SEC not later than 120 days after December 31, 2011, which information is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

**General**

At February 21, 2012, UniSource Energy had outstanding 38.0 million shares of Common Stock. At February 21, 2012, the number of shares of Common Stock beneficially owned by all directors and officers of UniSource Energy as a group amounted to approximately 3% of the outstanding Common Stock.

At February 21, 2012, UniSource Energy owned 100% of the outstanding shares of common stock of TEP.

**Security Ownership of Certain Beneficial Owners**

Information concerning the security ownership of certain beneficial owners of UniSource Energy will be contained in UniSource Energy's Proxy Statement relating to the 2012 Annual Meeting of Shareholders, which will be filed with the SEC not later than 120 days after December 31, 2011, which information is incorporated herein by reference.

**Security Ownership of Management**

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Information concerning the security ownership of the Directors and Executive Officers of UniSource Energy will be contained in UniSource Energy's Proxy Statement relating to the 2012 Annual Meeting of Shareholders, which will be filed with the SEC not later than 120 days after December 31, 2011, which information is incorporated herein by reference.

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**Table of Contents****Securities Authorized for Issuance Under Equity Compensation Plans**

Information concerning securities authorized for issuance under equity compensation plans will be contained in UniSource Energy's Proxy Statement relating to the 2012 Annual Meeting of Shareholders, which will be filed with the SEC not later than 120 days after December 31, 2011, which information is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Information concerning certain relationships and related transactions, and director independence of UniSource Energy and TEP will be contained under Transactions with Management and Others, Director Independence and Compensation Committee Interlocks and Insider Participation in UniSource Energy's Proxy Statement relating to the 2012 Annual Meeting of Shareholders, which will be filed with the SEC not later than 120 days after December 31, 2011, which information is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information concerning principal accountant fees and services will be contained in UniSource Energy's Proxy Statement relating to the 2012 Annual Meeting of Shareholders, which will be filed with the SEC not later than 120 days after December 31, 2011, which information is incorporated herein by reference.

**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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(3). Exhibits

Reference is made to the Exhibit Index commencing on page 162.

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**SIGNATURES**

Pursuant to the requirements of Section 13 and 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNISOURCE ENERGY CORPORATION

Date: February 27, 2012

By: /s/ Kevin P. Larson  
Kevin P. Larson  
Senior Vice President and Principal  
Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 27, 2012

/s/ Paul J. Bonavia\*  
Paul J. Bonavia  
Chairman of the Board and  
Principal Executive Officer

Date: February 27, 2012

/s/ Kevin P. Larson  
Kevin P. Larson  
Principal Financial Officer

Date: February 27, 2012

/s/ Karen G. Kissinger\*  
Karen G. Kissinger  
Principal Accounting Officer

Date: February 27, 2012

/s/ Lawrence J. Aldrich\*  
Lawrence J. Aldrich  
Director

Date: February 27, 2012

/s/ Barbara M. Baumann\*  
Barbara M. Baumann  
Director

Date: February 27, 2012

/s/ Larry W. Bickle\*  
Larry W. Bickle  
Director

Date: February 27, 2012

/s/ Harold W. Burlingame\*  
Harold W. Burlingame  
Director

Date: February 27, 2012

/s/ Robert A. Elliott\*  
Robert A. Elliott  
Director

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Date: February 27, 2012	/s/ Daniel W.L. Fessler* Daniel W.L. Fessler Director
Date: February 27, 2012	/s/ Louise L. Francesconi* Louise L. Francesconi Director
Date: February 27, 2012	/s/ Warren Y. Jobe* Warren Y. Jobe Director
Date: February 27, 2012	/s/ Ramiro Peru* Ramiro Peru Director
Date: February 27, 2012	/s/ Gregory A. Pivrotto* Gregory A. Pivrotto Director
Date: February 27, 2012	/s/ Joaquin Ruiz* Joaquin Ruiz Director
Date: February 27, 2012	By: /s/ Kevin P. Larson Kevin P. Larson As attorney-in-fact for each of the persons indicated

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**SIGNATURES**

Pursuant to the requirements of Section 13 and 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TUCSON ELECTRIC POWER COMPANY

Date: February 27, 2012

By: /s/ Kevin P. Larson  
Kevin P. Larson  
Senior Vice President and Principal  
Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 27, 2012

/s/ Paul J. Bonavia\*  
Paul J. Bonavia  
Chairman of the Board and  
Principal Executive Officer

Date: February 27, 2012

/s/ Kevin P. Larson  
Kevin P. Larson  
Principal Financial Officer and Director

Date: February 27, 2012

/s/ Karen G. Kissinger\*  
Karen G. Kissinger  
Principal Accounting Officer

Date: February 27, 2012

/s/ Michael J. DeConcini\*  
Michael J. DeConcini  
Director

Date: February 27, 2012

/s/ David G. Hutchens\*  
David G. Hutchens  
Director

Date: February 27, 2012

By: /s/ Kevin P. Larson  
Kevin P. Larson  
As attorney-in-fact for each of the persons indicated

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**EXHIBIT INDEX**

- \*2(a) Agreement and Plan of Exchange, dated as of March 20, 1995, between TEP, UniSource Energy and NCR Holding, Inc. (Form 10-K for the year ended December 31, 1997, File No. 13739 Exhibit. 2(a)).
- \*3(a) Restated Articles of Incorporation of TEP, filed with the ACC on August 11, 1994, as amended by Amendment to Article Fourth of our Restated Articles of Incorporation, filed with the ACC on May 17, 1996. (Form 10-K for the year ended December 31, 1996, File No. 1-5924-Exhibit No 3(a)).
- \*3(a)(1) TEP Articles of Amendment filed with the ACC on September 3, 2009 (Form 10-K for the year ended December 31, 2010, File No. 1-1379 Exhibit 3(a))
- \*3(b) Bylaws of TEP, as amended as of August 31, 2009 (Form 10-Q for the quarter ended September 30, 2009, File No. 13739 Exhibit 3.1).
- \*3(c) Amended and Restated Articles of Incorporation of UniSource Energy. (Form 8-A/A, dated January 30, 1998, File No. 1-13739 Exhibit 2(a)).
- \*3(d) Revised and restated bylaws of UniSource Energy, as revised and restated December 14, 2011 (Form 8-K, dated December 15, 2011, File No. 13739 Exhibit 3.1)
- 4(a) Reserved.
- \*4(b)(1) Loan Agreement, dated as of October 1, 1982, between the Pima County Authority and TEP relating to Floating Rate Monthly Demand Industrial Development Revenue Bonds, 1982 Series A (Tucson Electric Power Company Sundt Project). (Form 10-Q for the quarter ended September 30, 1982, File No. 1-5924 Exhibit 4(a)).
- \*4(b)(2) Indenture of Trust, dated as of October 1, 1982, between the Pima County Authority and Morgan Guaranty authorizing Floating Rate Monthly Demand Industrial Development Revenue Bonds, 1982 Series A (Tucson Electric Power Company Sundt Project). (Form 10-Q for the quarter ended September 30, 1982, File No. 1-5924 Exhibit 4(b)).
- \*4(b)(3) First Supplemental Loan Agreement, dated as of March 31, 1992, between the Pima County Authority and TEP relating to Industrial Development Revenue Bonds, 1982 Series A (Tucson Electric Power Company Sundt Project). (Form S-4, Registration No. 33-52860 Exhibit 4(h)(3)).
- \*4(b)(4) First Supplemental Indenture of Trust, dated as of March 31, 1992, between the Pima County Authority and Morgan Guaranty relating to Industrial Development Revenue Bonds, 1982 Series A (Tucson Electric Power Company Sundt Project). (Form S-4, Registration No. 33-52860 Exhibit 4(h)(4)).
- \*4(c)(1) Loan Agreement, dated as of December 1, 1982, between the Pima County Authority and TEP relating to Floating Rate Monthly Demand Industrial Development Revenue Bonds, 1982 Series A (Tucson Electric Power Company Projects). (Form 10-K for the year ended December 31, 1982, File No. 1-5924 Exhibit 4(k)(1)).
- \*4(c)(2) Indenture of Trust dated as of December 1, 1982, between the Pima County Authority and Morgan Guaranty authorizing Floating Rate Monthly Demand Industrial Development Revenue Bonds, 1982 Series A (Tucson Electric Power Company Projects). (Form 10-K for the year ended December 31, 1982, File No. 1-5924 Exhibit 4(k)(2)).
- \*4(c)(3) First Supplemental Loan Agreement, dated as of March 31, 1992, between the Pima County Authority and TEP relating to Industrial Development Revenue Bonds, 1982 Series A (Tucson Electric Power Company Projects). (Form S-4, Registration No. 33-52860 Exhibit 4(i)(3)).

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- \*4(c)(4) First Supplemental Indenture of Trust, dated as of March 31, 1992, between the Pima County Authority and Morgan Guaranty relating to Industrial Development Revenue Bonds, 1982 Series A (Tucson Electric Power Company Projects). (Form S-4, Registration No. 33-52860 Exhibit 4(i)(4)).
- \*4(d)(1) Loan Agreement, dated as of December 1, 1983, between the Apache County Authority and TEP relating to Floating Rate Monthly Demand Industrial Development Revenue Bonds, 1983 Series A (Tucson Electric Power Company Springerville Project). (Form 10-K for the year ended December 31, 1983, File No. 1-5924 Exhibit 4(I)(1)).
- \*4(d)(2) Indenture of Trust, dated as of December 1, 1983, between the Apache County Authority and Morgan Guaranty authorizing Floating Rate Monthly Demand Industrial Development Revenue Bonds, 1983 Series A (Tucson Electric Power Company Springerville Project). (Form 10-K for the year ended December 31, 1983, File no. 1-5924 Exhibit 4(I)(2)).
- \*4(d)(3) First Supplemental Loan Agreement, dated as of December 1, 1985, between the Apache County Authority and TEP relating to Floating Rate Monthly Demand Industrial Development Revenue Bonds, 1983 Series A (Tucson Electric Power Company Springerville Project). (Form 10-K for the year ended December 31, 1987, File No. 1-5924 Exhibit 4(k)(3)).
- \*4(d)(4) First Supplemental Indenture, dated as of December 1, 1985, between the Apache County Authority and Morgan Guaranty relating to Floating Rate Monthly Demand Industrial Development Revenue Bonds, 1983 Series A (Tucson Electric Power Company Springerville Project). (Form 10-K for the year ended December 31, 1987, File No. 1-5924 Exhibit 4(k)(4)).
- \*4(d)(5) Second Supplemental Loan Agreement, dated as of March 31, 1992, between the Apache County Authority and TEP relating to Industrial Development Revenue Bonds, 1983 Series A (Tucson Electric Power Company Springerville Project). (Form S-4, Registration No. 33-52860 Exhibit 4(k)(5)).
- \*4(d)(6) Second Supplemental Indenture of Trust, dated as of March 31, 1992, between the Apache County Authority and Morgan Guaranty relating to Industrial Development Revenue Bonds, 1983 Series A (Tucson Electric Power Company Springerville Project). (Form S-4, Registration No. 33-52860 Exhibit 4(k)(6)).
- \*4(e)(1) Loan Agreement, dated as of December 1, 1983, between the Apache County Authority and TEP relating to Variable Rate Demand Industrial Development Revenue Bonds, 1983 Series B (Tucson Electric Power Company Springerville Project). (Form 10-K for the year ended December 31, 1983, File No. 1-5924 Exhibit 4(m)(1)).
- \*4(e)(2) Indenture of Trust dated as of December 1, 1983, between the Apache County Authority and Morgan Guaranty authorizing Variable Rate Demand Industrial Development Revenue Bonds. 1983 Series B (Tucson Electric Power Company Springerville Project). (Form 10-K for the year ended December 31, 1983, File No. 1-5924 Exhibit 4(m)(2)).
- \*4(e)(3) First Supplemental Loan Agreement, dated as of December 1, 1985, between the Apache County Authority and TEP relating to Floating Rate Monthly Demand Industrial Developmental Revenue Bonds, 1983 Series B (Tucson Electric Power Company Springerville Project). (Form 10-K for the year ended December 31, 1987, File No. 1-5924 Exhibit 4(I)(3)).
- \*4(e)(4) First Supplemental Indenture, dated as of December 1, 1985, between the Apache County Authority and Morgan Guaranty relating to Floating Rate Monthly Demand Industrial Development Revenue Bonds, 1983 Series B (Tucson Electric Power Company Springerville Project). (Form 10-K for the year ended December 31, 1987, File No. 1-5924 Exhibit 4(I)(4)).
- \*4(e)(5) Second Supplemental Loan Agreement, dated as of March 31, 1992, between the Apache County Authority and TEP relating to Industrial Development Revenue Bonds, 1983 Series B (Tucson Electric Power Company Springerville Project). (Form S-4, Registration No. 33-52860 Exhibit 4(I)(5)).

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- \*4(e)(6) Second Supplemental Indenture of Trust, dated as of March 31, 1992, between the Apache County Authority and Morgan Guaranty relating to Industrial Development Revenue Bonds, 1983 Series B (Tucson Electric Power Company Springerville Project). (Form S-4, Registration No. 33-52860 Exhibit 4(I)(6)).
- 4(e)(7) Third Supplemental Indenture of Trust, dated as of December 7, 2011, between the Apache County Authority and U.S. Bank Trust National Association, as successor trustee, relating to Industrial Development Bonds 1983 Series B (Tucson Electric Power Company Springerville Project)
- \*4(f)(1) Loan Agreement, dated as of December 1, 1983, between the Apache County Authority and TEP relating to Variable Rate Demand Industrial Development Revenue Bonds, 1983 Series C (Tucson Electric Power Company Springerville Project). (Form 10-K for year ended December 31, 1983, File No. 1-5924 Exhibit 4(n)(1)).
- \*4(f)(2) Indenture of Trust dated as of December 1, 1983, between the Apache County Authority and Morgan Guaranty authorizing Variable Rate Demand Industrial Development Revenue Bonds, 1983 Series C (Tucson Electric Power Company Springerville Project). (Form 10-K for the year ended December 31, 1983, File No. 1-5924 Exhibit 4(n)(2)).
- \*4(f)(3) First Supplemental Loan Agreement, dated as of December 1, 1985, between the Apache County Authority and TEP relating to Floating Rate Monthly Demand Industrial Development Revenue Bonds, 1983 Series C (Tucson Electric Power Company Springerville Project). (Form 10-K for the year ended December 31, 1987, File No. 1-5924 Exhibit 4(m)(3)).
- \*4(f)(4) First Supplemental Indenture, dated as of December 1, 1985, between the Apache County Authority and Morgan Guaranty relating to Floating Rate Monthly Demand Industrial Development Revenue Bonds, 1983 Series C (Tucson Electric Power Company Springerville Project). (Form 10-K for the year ended December 31, 1987, File No. 1-5924 Exhibit 4(m)(4)).
- \*4(f)(5) Second Supplemental Loan Agreement, dated as of March 31, 1992, between the Apache County Authority and TEP relating to Industrial Development Revenue Bonds, 1983 Series C (Tucson Electric Power Company Springerville Project). (Form S-4, Registration No. 33-52860 Exhibit 4(m)(5)).
- \*4(f)(6) Second Supplemental Indenture of Trust, dated as of March 31, 1992, between the Apache County Authority and Morgan Guaranty relating to Industrial Development Revenue Bonds, 1983 Series C (Tucson Electric Power Company Springerville Project). (Form S-4, Registration No. 33-52860 Exhibit 4(m)(6)).
- 4(f)(7) Third Supplemental Indenture of Trust, dated as of December 7, 2011, between the Apache County Authority and U.S. Bank Trust National Association, as successor trustee, relating to Industrial Development Bonds 1983 Series C (Tucson Electric Power Company Springerville Project)
- 4(g) Reserved
- \*4(h)(1) Loan Agreement, dated as of December 1, 1985, between the Apache County Authority and TEP relating to Variable Rate Demand Industrial Development Revenue Bonds, 1985 Series A (Tucson Electric Power Company Springerville Project). (Form 10-K for the year ended December 31, 1985, File No. 1-5924 Exhibit 4(r)(1)).
- \*4(h)(2) Indenture of Trust dated as of December 1, 1985, between the Apache County Authority and Morgan Guaranty authorizing Variable Rate Demand Industrial Development Revenue Bonds, 1985 Series A (Tucson Electric Power Company Springerville Project). (Form 10-K for the year ended December 31, 1985, File No. 1-5924 Exhibit 4(r)(2)).

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- \*4(h)(3) First Supplemental Loan Agreement, dated as of March 31, 1992, between the Apache County Authority and TEP relating to Industrial Development Revenue Bonds, 1985 Series A (Tucson Electric Power Company Springerville Project). (Form S-4, Registration No. 33-52860 Exhibit 4(o)(3)).
- \*4(h)(4) First Supplemental Indenture of Trust, dated as of March 31, 1992, between the Apache County Authority and Morgan Guaranty relating to Industrial Development Revenue Bonds, 1985 Series A (Tucson Electric Power Company Springerville Project). (Form S-4, Registration No. 33-52860 Exhibit 4(o)(4)).
- \*4(i)(1) Indenture of Mortgage and Deed of Trust dated as of December 1, 1992, to Bank of Montreal Trust Company, Trustee. (Form S-1, Registration No. 33-55732 Exhibit 4(r)(1)).
- \*4(i)(2) Supplemental Indenture No. 1 creating a series of bonds designated Second Mortgage Bonds, Collateral Series A, dated as of December 1, 1992. (Form S-1, Registration No. 33-55732 Exhibit 4(r)(2)).
- \*4(i)(3) Supplemental Indenture No. 2 creating a series of bonds designated Second Mortgage Bonds, Collateral Series B, dated as of December 1, 1997. (Form 10-K for year ended December 31, 1997, File No. 1-5924 Exhibit 4(m)(3)).
- \*4(i)(4) Supplemental Indenture No. 3 creating a series of bonds designated Second Mortgage Bonds, Collateral Series, dated as of August 1, 1998. (Form 10-Q for the quarter ended June 30, 1998, File No. 1-5924 Exhibit 4(c)).
- \*4(i)(5) Supplemental Indenture No. 4 creating a series of bonds designated Second Mortgage Bonds, Collateral Series C, dated as of November 1, 2002. (Form 8-K dated November 27, 2002, File Nos. 1-05924 and 1-13739 Exhibit 99.2).
- \*4(i)(6) Supplemental Indenture No. 5 creating a series of bonds designated Second Mortgage Bonds, Collateral Series D, dated as of March 1, 2004. (Form 8-K dated March 31, 2004, File Nos. 1-05924 and 1-13739 Exhibit 10 (b)).
- \*4(i)(7) Supplemental Indenture No. 6 creating a series of bonds designated Second Mortgage Bonds, Collateral Series E, dated as of May 1, 2005. (Form 10-Q for the quarter ended March 31, 2005, File Nos. 1-5924 and 1-13739 Exhibit 4(b)).
- \*4(i)(8) Supplemental Indenture No. 7 creating a series of bonds designated First Mortgage Bonds, Collateral Series F, dated as of December 1, 2006. (Form 8-K dated December 22, 2006, File Nos. 1-5924 and 1-13739 Exhibit 4.1).
- \*4(i)(9) Supplemental Indenture No. 8 creating a series of bonds designated First Mortgage Bonds, Collateral Series G, dated as of June 1, 2008. (Form 8-K dated June 25, 2008, File Nos. 1-5924 and 1-13739 Exhibit 4(b)).
- \*4(i)(10) Supplemental Indenture No. 9 dated as of July 3, 2008, (Form 10-K for the year ended December 31, 2009, File No. 1-3739, Exhibit 4(i)(10)).
- \*4(i)(11) Supplemental Indenture No. 10 creating a series of bonds designated as First Mortgage Bonds, Collateral Series H, dated as of March 1, 2010. (Form 8-K dated March 5, 2010, File No. 1-13739, Exhibit 4(b)).
- \*4(i)(12) Supplemental Indenture No.11, dated as of November 1, 2010, between Tucson Electric Power Company and The Bank of New York Mellon, as trustee. (Form 8-K dated November 15, 2010, File No. 1-13739, Exhibit 4.5).
- \*4(i)(13) Supplemental Indenture No. 12, dated as of December 1, 2010, between TEP and the Bank of New York Mellon, creating a series of bonds designated First Mortgage Bonds, Collateral Series J. (Form 8-K dated December 17, 2010, File No. 1-13739, Exhibit 4(b)).

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- 4(i)(14) Supplemental Indenture No.13, dated as of November 1, 2011, between Tucson Electric Power Company and The Bank of New York Mellon, amending terms of bonds designated First Mortgage Bonds, Collateral Series I.
- \*4(j)(1) Indenture of Trust, dated as of June 1, 2008, between The Industrial Development Authority of the County of Pima and U.S. Bank Trust National Association authorizing Industrial Development Revenue Bonds, 2008 Series B (Tucson Electric Power Company Project). (Form 8-K dated June 25, 2008, File Nos. 1-5924 and 1-13739 Exhibit 4(a)).
- \*4(j)(2) Loan Agreement, dated as of June 1, 2008, between The Industrial Development Authority of the County of Pima and TEP relating to Industrial Development Revenue Bonds, 2008 Series B (Tucson Electric Power Company Project). (Form 8-K dated June 25, 2008, File Nos. 1-5924 and 1-13739 Exhibit 4(b)).
- \*4(k)(1) Indenture of Trust, dated as of December 1, 2010, between the Coconino County, Arizona Pollution Control Corporation and U.S. Bank Trust National Association authorizing Pollution Control Bonds, 2010 Series A (Tucson Electric Power Company Navajo Project). (Form 8-K dated December 17, 2010, File No. 1-13739, Exhibit 4(c)).
- \*4(k)(2) Loan Agreement, dated as of December 1, 2010, between the Coconino County, Arizona Pollution Control Corporation and TEP relating to Pollution Control Bonds, 2010 Series A (Tucson Electric Power Company Navajo Project). (Form 8-K dated December 17, 2010, File No. 1-13739, Exhibit 4(d)).
- \*4(l)(1) Loan Agreement, dated as of March 1, 1998, between The Industrial Development Authority of the County of Apache and TEP relating to Pollution Control Revenue Bonds, 1998 Series A (Tucson Electric Power Company Project). (Form 10-Q for the quarter ended March 31, 1998, File No. 1-5924 Exhibit 4(a)).
- \*4(l)(2) Indenture of Trust, dated as of March 1, 1998, between The Industrial Development Authority of the County of Apache and First Trust of New York, National Association, authorizing Pollution Control Revenue Bonds, 1998 Series A (Tucson Electric Power Company Project). (Form 10-Q for the quarter ended March 31, 1998, File No. 1-5924 Exhibit 4(b)).
- \*4(m)(1) Loan Agreement, dated as of March 1, 1998, between The Industrial Development Authority of the County of Apache and TEP relating to Pollution Control Revenue Bonds, 1998 Series B (Tucson Electric Power Company Project). (Form 10-Q for the quarter ended March 31, 1998, File No. 1-5924 Exhibit 4(c)).
- \*4(m)(2) Indenture of Trust, dated as of March 1, 1998, between The Industrial Development Authority of the County of Apache and First Trust of New York, National Association, authorizing Pollution Control Revenue Bonds, 1998 Series B (Tucson Electric Power Company Project). (Form 10-Q for the quarter ended March 31, 1998, File No. 1-5924 Exhibit 4(d)).
- \*4(n)(1) Loan Agreement, dated as of March 1, 1998, between The Industrial Development Authority of the County of Apache and TEP relating to Industrial Development Revenue Bonds, 1998 Series C (Tucson Electric Power Company Project). (Form 10-Q for the quarter ended March 31, 1998, File No. 1-5924 Exhibit 4(e)).
- \*4(n)(2) Indenture of Trust, dated as of March 1, 1998, between The Industrial Development Authority of the County of Apache and First Trust of New York, National Association, authorizing Industrial Development Revenue Bonds, 1998 Series C (Tucson Electric Power Company Project). (Form 10-Q for the quarter ended March 31, 1998, File No. 1-5924 Exhibit 4(f)).
- \*4(o)(1) Second Amended and Restated Credit Agreement, dated as of November 9, 2010, among Tucson Electric Power Company, Union Bank, N.A., as Administrative Agent, and a group of lenders. (Form 8-K dated November 15, 2010, File No. 1-13739, Exhibit 4.3).
- 4(o)(2) Amendment No. 1 to Second Amended and Restated Credit Agreement, dated as of November 18, 2011, among Tucson Electric Power Company, Union Bank, N.A., as Administrative Agent, and a group of lenders.

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*4(p)(1)	Note Purchase and Guaranty Agreement dated August 11, 2003 among UNS Gas, Inc., and UniSource Energy Services, Inc., and certain institutional investors. (Form 8-K dated August 21, 2003, File Nos. 1-5924 and 1-13739 Exhibit 99.2).
*4(p)(2)	Note Purchase Agreement, dated as of May 4, 2011, among UNS Gas, Inc., UniSource Energy Services, Inc., and a group of purchasers, (Form 8-K dated August 12, 2011, File 1-13739 Exhibit 4.1).
*4(q)(1)	Note Purchase and Guaranty Agreement dated August 5, 2008, among UNS Electric, Inc., and UniSource Energy Services, Inc., and certain institutional investors. (Form 10-Q for the quarter ended June 30, 2008, File Nos. 1-5924 and 1-13739 Exhibit 4).
*4(r)(1)	Indenture dated as of March 1, 2005, to The Bank of New York, as Trustee. (Form 8-K dated March 3, 2005, File Nos. 1-5924 and 1-13739 Exhibit 4.1).
*4(s)(1)	Second Amended and Restated Credit Agreement, dated as of November 9, 2010, among UniSource Energy Corporation, Union Bank, N.A., as Administrative Agent, and a group of lenders. (Form 8-K dated November 15, 2010, File No. 1-13739, Exhibit 4.1).
4(s)(2)	Amendment No. 1 to Second Amended and Restated Credit Agreement, dated as of November 18, 2011, among UniSource Energy Corporation, Union Bank, N.A., as Administrative Agent, and a group of lenders.
*4(t)(1)	Second Amended and Restated Credit Agreement, dated as of November 9, 2010, among UNS Electric, Inc., UNS Gas, Inc., UniSource Energy Services, Inc., Union Bank, N.A., as Administrative Agent, and a group of lenders. (Form 8-K dated November 15, 2010, File No. 1-13739, Exhibit 4.4).
4(t)(2)	Amendment No. 1 to Second Amended and Restated Credit Agreement, dated as of November 18, 2011, among UNS Electric, Inc., UNS Gas, Inc., UniSource Energy Services, Inc., Union Bank, N.A., as Administrative Agent, and a group of lenders.
*4(u)(1)	Reimbursement Agreement, dated as of December 14, 2010, among TEP, as Borrower, the financial institutions from time to time, parties thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and as Issuing Bank. (Form 8-K dated December 17, 2010, File No. 1-13739, Exhibit 4(a)).
*4(v)(1)	Second Amended and Restated Pledge Agreement, dated as of November 9, 2010, among UniSource Energy Corporation, Union Bank, N.A., as Administrative Agent, and a group of lenders. (Form 8-K dated November 15, 2010, File No. 1-13739, Exhibit 4.2).
*4(w)(1)	Indenture of Trust, dated as of March 1, 2008, between The Industrial Development Authority of the County of Pima and U.S. Bank Trust National Association authorizing Industrial Development Revenue Bonds, 2008 Series A (Tucson Electric Power Company Project). (Form 8-K dated March 19, 2008, File Nos. 1-5924 and 1-13739 Exhibit 4(a)).
*4(w)(2)	Loan Agreement, dated as of March 1, 2008, between the Industrial Development Authority of the County of Pima and TEP relating to Industrial Development Revenue Bonds, 2008 Series A (Tucson Electric Power Company Project). (Form 8-K dated March 19, 2008, File Nos. 1-5924 and 1-13739 Exhibit 4(b)).
*4(x)(1)	Indenture of Trust, dated as of October 1, 2009, between The Industrial Development Authority of the County of Pima and U.S. Bank Trust National Association authorizing Pollution Control Revenue Bonds, 2009 Series A (Tucson Electric Power Company Navajo Project). (Form 8-K dated October 13, 2009, File No. 1-13739- Exhibit 4(A)).

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- \*4(x)(2) Loan Agreement, dated as of October 1, 2009, between The Industrial Development Authority of the County of Pima and TEP relating to Pollution Control Revenue Bonds, 2009 Series A (Tucson Electric Power Company San Juan Project). (Form 8-K dated October 13, 2009, File No. 1-13739- Exhibit 4(B)).
- \*4(x)(3) Indenture of Trust, dated as of October 1, 2009, between Coconino County, Arizona Pollution Control Corporation and U.S. Bank Trust National Association authorizing Pollution Control Revenue Bonds, 2009 Series A (Tucson Electric Power Company Navajo Project). (Form 8-K dated October 13, 2009, File No. 1-13739- Exhibit 4(C)).
- \*4(x)(4) Loan Agreement, dated as of October 1, 2009, between Coconino County, Arizona Pollution Control Corporation and TEP relating to Pollution Control Revenue Bonds, 2009 Series A (Tucson Electric Power Company Navajo Project). (Form 8-K dated October 13, 2009, File No. 1-13739- Exhibit 4(D)).
- \*4(y)(1) Indenture of Trust, dated as of October 1, 2010, between the Industrial Development Authority of the County of Pima and U.S. Bank Trust National Association, authorizing Industrial Development Revenue Bonds, 2010 Series A (Tucson Electric Power Company Project). (Form 8-K dated October 8, 2010, File No. 1-13739 Exhibit 4(a)).
- \*4(y)(2) Loan Agreement, dated as of October 1, 2010, between the Industrial Development Authority of the County of Pima and TEP, relating to Industrial Development Revenue Bonds, 2010 Series A (Tucson Electric Power Company Project). (Form 8-K dated October 8, 2010, File No. 1-13739 Exhibit 4(b)).
- \*4(z)(1) Credit Agreement, dated as of August 10, 2011, among UNS Electric, Inc., UniSource Energy Services, Inc., and Union Bank, N.A., as Administrative Agent (Form 8-K dated August 12, 2011, File 1-13739 Exhibit 4.2).
- \*4(aa)(1) Indenture, dated November 1, 2011, between Tucson Electric Power Company and U.S. Bank National Association, as trustee, authorizing 5.15% Notes due 2021 (Form 8-K dated November 8, 2011, File 1-13739 Exhibit 4.1).
- \*10(a)(1) Lease Agreements, dated as of December 1, 1984, between Valencia and United States Trust Company of New York, as Trustee, and Thomas B. Zakrzewski, as Co-Trustee, as amended and supplemented. (Form 10-K for the year ended December 31, 1984, File No. 1-5924 Exhibit 10(d)(1)).
- \*10(a)(2) Guaranty and Agreements, dated as of December 1, 1984, between TEP and United States Trust Company of New York, as Trustee, and Thomas B. Zakrzewski, as Co-Trustee. (Form 10-K for the year ended December 31, 1984, File No. 1-5924 Exhibit 10(d)(2)).
- \*10(a)(3) General Indemnity Agreements, dated as of December 1, 1984, between Valencia and TEP, as Indemnitors; General Foods Credit Corporation, Harvey Hubbell Financial, Inc. and J.C. Penney Company, Inc. as Owner Participants; United States Trust Company of New York, as Owner Trustee; Teachers Insurance and Annuity Association of America as Loan Participant; and Marine Midland Bank, N.A., as Indenture Trustee. (Form 10-K for the year ended December 31, 1984, File No. 1-5924 Exhibit 10(d)(3)).
- \*10(a)(4) Tax Indemnity Agreements, dated as of December 1, 1984, between General Foods Credit Corporation, Harvey Hubbell Financial, Inc. and J.C. Penney Company, Inc., each as Beneficiary under a separate Trust Agreement dated December 1, 1984, with United States Trust of New York as Owner Trustee, and Thomas B. Zakrzewski as Co-Trustee, Lessor, and Valencia, Lessee, and TEP, Indemnitors. (Form 10-K for the year ended December 31, 1984, File No. 1-5924 Exhibit 10(d)(4)).
- \*10(a)(5) Amendment No. 1, dated December 31, 1984, to the Lease Agreements, dated December 1, 1984, between Valencia and United States Trust Company of New York, as Owner Trustee, and Thomas B. Zakrzewski as Co-Trustee. (Form 10-K for the year ended December 31, 1986, File No. 1-5924 Exhibit 10(e)(5)).

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- \*10(a)(6)      Amendment No. 2, dated April 1, 1985, to the Lease Agreements, dated December 1, 1984, between Valencia and United States Trust Company of New York, as Owner Trustee, and Thomas B. Zakrzewski as Co-Trustee. (Form 10-K for the year ended December 31, 1986, File No. 1-5924    Exhibit 10(e)(6)).
- \*10(a)(7)      Amendment No. 3 dated August 1, 1985, to the Lease Agreements, dated December 1, 1984, between Valencia and United States Trust Company of New York, as Owner Trustee, and Thomas Zakrzewski as Co-Trustee. (Form 10-K for the year ended December 31, 1986, File No. 1-5924    Exhibit 10(e)(7)).
- \*10(a)(8)      Amendment No. 4, dated June 1, 1986, to the Lease Agreement, dated December 1, 1984, between Valencia and United States Trust Company of New York as Owner Trustee, and Thomas Zakrzewski as Co-Trustee, under a Trust Agreement dated as of December 1, 1984, with General Foods Credit Corporation as Owner Participant. (Form 10-K for the year ended December 31, 1986, File No. 1-5924    Exhibit 10(e)(8)).
- \*10(a)(9)      Amendment No. 4, dated June 1, 1986, to the Lease Agreement, dated December 1, 1984, between Valencia and United States Trust Company of New York as Owner Trustee, and Thomas Zakrzewski as Co-Trustee, under a Trust Agreement dated as of December 1, 1984, with J.C. Penney Company, Inc. as Owner Participant. (Form 10-K for the year ended December 31, 1986, File No. 1-5924    Exhibit 10(e)(9)).
- \*10(a)(10)     Amendment No. 4, dated June 1, 1986, to the Lease Agreement, dated December 1, 1984, between Valencia and United States Trust Company of New York as Owner Trustee, and Thomas Zakrzewski as Co-Trustee, under a Trust Agreement dated as of December 1, 1984, with Harvey Hubbell Financial Inc. as Owner Participant. (Form 10-K for the year ended December 31, 1986, File No. 1-5924    Exhibit 10(e)(10)).
- \*10(a)(11)     Lease Amendment No. 5 and Supplement No. 2, to the Lease Agreement, dated July 1, 1986, between Valencia, United States Trust Company of New York as Owner Trustee, and Thomas Zakrzewski as Co-Trustee and J.C. Penney as Owner Participant. (Form 10-K for the year ended December 31, 1986, File No. 1-5924    Exhibit 10(e)(11)).
- \*10(a)(12)     Lease Amendment No. 5, to the Lease Agreement, dated June 1, 1987, between Valencia, United States Trust Company of New York as Owner Trustee, and Thomas Zakrzewski as Co-Trustee and General Foods Credit Corporation as Owner Participant. (Form 10-K for the year ended December 31, 1988, File No. 1-5924    Exhibit 10(f)(12)).
- \*10(a)(13)     Lease Amendment No. 5, to the Lease Agreement, dated June 1, 1987, between Valencia, United States Trust Company of New York as Owner Trustee, and Thomas Zakrzewski as Co-Trustee and Harvey Hubbell Financial Inc. as Owner Participant. (Form 10-K for the year ended December 31, 1988, File No. 1-5924    Exhibit 10(f)(13)).
- \*10(a)(14)     Lease Amendment No. 6, to the Lease Agreement, dated June 1, 1987, between Valencia, United States Trust Company of New York as Owner Trustee, and Thomas Zakrzewski as Co-Trustee and J.C. Penney Company, Inc. as Owner Participant. (Form 10-K for the year ended December 31, 1988, File No. 1-5924    Exhibit 10(f)(14)).
- \*10(a)(15)     Lease Supplement No. 1, dated December 31, 1984, to Lease Agreements, dated December 1, 1984, between Valencia, as Lessee and United States Trust Company of New York and Thomas B. Zakrzewski, as Owner Trustee and Co-Trustee, respectively (document filed relates to General Foods Credit Corporation; documents relating to Harvey Hubbell Financial, Inc. and JC Penney Company, Inc. are not filed but are substantially similar). (Form S-4 Registration No. 33-52860    Exhibit 10(f)(15)).



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- \*10(a)(16) Amendment No. 1, dated June 1, 1986, to the General Indemnity Agreement, dated as of December 1, 1984, between Valencia and TEP, as Indemnitors, General Foods Credit Corporation, as Owner Participant, United States Trust Company of New York, as Owner Trustee, Teachers Insurance and Annuity Association of America, as Loan Participant, and Marine Midland Bank, N.A., as Indenture Trustee. (Form 10-K for the year ended December 31, 1986, File No. 1-5924 Exhibit 10(e)(12)).
- \*10(a)(17) Amendment No. 1, dated June 1, 1986, to the General Indemnity Agreement, dated as of December 1, 1984, between Valencia and TEP, as Indemnitors, J.C. Penney Company, Inc., as Owner Participant, United States Trust Company of New York, as Owner Trustee, Teachers Insurance and Annuity Association of America, as Loan Participant, and Marine Midland Bank, N.A., as Indenture Trustee. (Form 10-K for the year ended December 31, 1986, File No. 1-5924 Exhibit 10(e)(13)).
- \*10(a)(18) Amendment No. 1, dated June 1, 1986, to the General Indemnity Agreement, dated as of December 1, 1984, between Valencia and TEP, as Indemnitors, Harvey Hubbell Financial, Inc., as Owner Participant, United States Trust Company of New York, as Owner Trustee, Teachers Insurance and Annuity Association of America, as Loan Participant, and Marine Midland Bank, N.A., as Indenture Trustee. (Form 10-K for the year ended December 31, 1986, File No. 1-5924 Exhibit 10(e)(14)).
- \*10(a)(19) Amendment No. 2, dated as of July 1, 1986, to the General Indemnity Agreement, dated as of December 1, 1984, between Valencia and TEP, as Indemnitors, J.C. Penney Company, Inc., as Owner Participant, United States Trust Company of New York, as Owner Trustee, Teachers Insurance and Annuity Association of America, as Loan Participant, and Marine Midland Bank, N.A., as Indenture Trustee. (Form S-4, Registration No. 33-52860 Exhibit 10(f)(19)).
- \*10(a)(20) Amendment No. 2, dated as of June 1, 1987, to the General Indemnity Agreement, dated as of December 1, 1984, between Valencia and TEP, as Indemnitors, General Foods Credit Corporation, as Owner Participant, United States Trust Company of New York, as Owner Trustee, Teachers Insurance and Annuity Association of America, as Loan Participant, and Marine Midland Bank, N.A., as Indenture Trustee. (Form S-4, Registration No. 33-52860 --Exhibit 10(f)(20)).
- \*10(a)(21) Amendment No. 2, dated as of June 1, 1987, to the General Indemnity Agreement, dated as of December 1, 1984, between Valencia and TEP, as Indemnitors, Harvey Hubbell Financial, Inc., as Owner Participant, United States Trust Company of New York, as Owner Trustee, Teachers Insurance and Annuity Association of America, as Loan Participant, and Marine Midland Bank, N.A., as Indenture Trustee. (Form S-4, Registration No. 33-52860 Exhibit 10(f)(21)).
- \*10(a)(22) Amendment No. 3, dated as of June 1, 1987, to the General Indemnity Agreement, dated as of December 1, 1984, between Valencia and TEP, as Indemnitors, J.C. Penney Company, Inc., as Owner Participant, United States Trust Company of New York, as Owner Trustee, Teachers Insurance and Annuity Association of America, as Loan Participant, and Marine Midland Bank, N.A., as Indenture Trustee. (Form S-4, Registration No. 33-52860 Exhibit 10(f)(22)).
- \*10(a)(23) Supplemental Tax Indemnity Agreement, dated July 1, 1986, between J.C. Penney Company, Inc., as Owner Participant, and Valencia and TEP, as Indemnitors. (Form 10-K for the year ended December 31, 1986, File No. 1-5924 Exhibit 10(e)(15)).
- \*10(a)(24) Supplemental General Indemnity Agreement, dated as of July 1, 1986, among Valencia and TEP, as Indemnitors, J.C. Penney Company, Inc., as Owner Participant, United States Trust Company of New York, as Owner Trustee, Teachers Insurance and Annuity Association of America, as Loan Participant, and Marine Midland Bank, N.A., as Indenture Trustee. (Form 10-K for the year ended December 31, 1986, File No. 1-5924 Exhibit 10(e)(16)).
- \*10(a)(25) Amendment No. 1, dated as of June 1, 1987, to the Supplemental General Indemnity Agreement, dated as of July 1, 1986, among Valencia and TEP, as Indemnitors, J.C. Penney Company, Inc., as Owner Participant, United States Trust Company of New York, as Owner Trustee, Teachers Insurance and Annuity Association of America, as Loan Participant, and Marine Midland Bank, N.A., as Indenture Trustee. (Form S-4, Registration No. 33-52860 Exhibit 10(f)(25)).

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- \*10(a)(26) Valencia Agreement, dated as of June 30, 1992, among TEP, as Guarantor, Valencia, as Lessee, Teachers Insurance and Annuity Association of America, as Loan Participant, Marine Midland Bank, N.A., as Indenture Trustee, United States Trust Company of New York, as Owner Trustee, and Thomas B. Zakrzewski, as Co-Trustee, and the Owner Participants named therein relating to the Restructuring of Valencia's lease of the coal-handling facilities at the Springerville Generating Station. (Form S-4, Registration No. 33-52860 Exhibit 10(f)(26)).
- \*10(a)(27) Amendment, dated as of December 15, 1992, to the Lease Agreements, dated December 1, 1984, between Valencia, as Lessee, and United States Trust Company of New York, as Owner Trustee, and Thomas B. Zakrzewski, as Co-Trustee. (Form S-1, Registration No. 33-55732 Exhibit 10(f)(27)).
- \*10(b)(1) Lease Agreements, dated as of December 1, 1985, between TEP and San Carlos Resources Inc. (San Carlos) (a wholly-owned subsidiary of the Registrant) jointly and severally, as Lessee, and Wilmington Trust Company, as Trustee, as amended and supplemented. (Form 10-K for the year ended December 31, 1985, File No. 1-5924 Exhibit 10(f)(1)).
- \*10(b)(2) Tax Indemnity Agreements, dated as of December 1, 1985, between Philip Morris Credit Corporation, IBM Credit Financing Corporation and Emerson Finance Co., each as beneficiary under a separate trust agreement, dated as of December 1, 1985, with Wilmington Trust Company, as Owner Trustee, and William J. Wade, as Co-Trustee, and TEP and San Carlos, as Lessee. (Form 10-K for the year ended December 31, 1985, File No. 1-5924 Exhibit 10(f)(2)).
- \*10(b)(3) Participation Agreement, dated as of December 1, 1985, among TEP and San Carlos as Lessee, Philip Morris Credit Corporation, IBM Credit Financing Corporation, and Emerson Finance Co. as Owner Participants, Wilmington Trust Company as Owner Trustee, The Sumitomo Bank, Limited, New York Branch, as Loan Participant, and Bankers Trust Company, as Indenture Trustee. (Form 10-K for the year ended December 31, 1985, File No. 1-5924 Exhibit 10(f)(3)).
- \*10(b)(4) Restructuring Commitment Agreement, dated as of June 30, 1992, among TEP and San Carlos, jointly and severally, as Lessee, Philip Morris Credit Corporation, IBM Credit Financing Corporation and Emerson Capital Funding, William J. Wade, as Owner Trustee and Co-Trustee, respectively, The Sumitomo Bank, Limited, New York Branch, as Loan Participant and United States Trust Company of New York, as Indenture Trustee. (Form S-4, Registration No. 33-52860 Exhibit 10(g)(4)).
- \*10(b)(5) Lease Supplement No.1, dated December 31, 1985, to Lease Agreements, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee Trustee and Co-Trustee, respectively (document filed relates to Philip Morris Credit Corporation; documents relating to IBM Credit Financing Corporation and Emerson Financing Co. are not filed but are substantially similar). (Form S-4, Registration No. 33-52860 Exhibit 10(g)(5)).
- \*10(b)(6) Amendment No. 1, dated as of December 15, 1992, to Lease Agreements, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, as Lessor. (Form S-1, Registration No. 33-55732 Exhibit 10(g)(6)).
- \*10(b)(7) Amendment No. 1, dated as of December 15, 1992, to Tax Indemnity Agreements, dated as of December 1, 1985, between Philip Morris Credit Corporation, IBM Credit Financing Corporation and Emerson Capital Funding Corp., as Owner Participants and TEP and San Carlos, jointly and severally, as Lessee. (Form S-1, Registration No. 33-55732 Exhibit 10(g)(7)).

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- \*10(b)(8) Amendment No. 2, dated as of December 1, 1999, to Lease Agreement, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, under a Trust Agreement with Philip Morris Capital Corporation as Owner Participant. (Form 10-K for the year ended December 31, 1999, File No. 1-5924 Exhibit 10(b)(8)).
- \*10(b)(9) Amendment No. 2, dated as of December 1, 1999, to Lease Agreement, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, under a Trust Agreement with IBM Credit Financing Corporation as Owner Participant. (Form 10-K for the year ended December 31, 1999, File No. 1-5924 Exhibit 10(b)(9)).
- \*10(b)(10) Amendment No. 2, dated as of December 1, 1999, to Lease Agreement, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, under a Trust Agreement with Emerson Finance Co. as Owner Participant. (Form 10-K for the year ended December 31, 1999, File No. 1-5924 Exhibit 10(b)(10)).
- \*10(b)(11) Amendment No. 2, dated as of December 1, 1999, to Tax Indemnity Agreement, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Philip Morris Capital Corporation as Owner Participant, beneficiary under a Trust Agreement dated as of December 1, 1985, with Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, together as Lessor. (Form 10-K for the year ended December 31, 1999, File No. 1-5924 Exhibit 10(b)(11)).
- \*10(b)(12) Amendment No. 2, dated as of December 1, 1999, to Tax Indemnity Agreement, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and IBM Credit Financing Corporation as Owner Participant, beneficiary under a Trust Agreement dated as of December 1, 1985, with Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, together as Lessor. (Form 10-K for the year ended December 31, 1999, File No. 1-5924 Exhibit 10(b)(12)).
- \*10(b)(13) Amendment No. 2, dated as of December 1, 1999, to Tax Indemnity Agreement, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Emerson Finance Co. as Owner Participant, beneficiary under a Trust Agreement dated as of December 1, 1985, with Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, together as Lessor. (Form 10-K for the year ended December 31, 1999, File No. 1-5924 Exhibit 10(b)(13)).
- \*10(b)(14) Amendment No. 3 dated as of June 1, 2003, to Lease Agreements, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, under a Trust Agreement with Philip Morris Capital Corporation as Owner Participant. (Form 10-Q for the quarter ended June 30, 2003, File No. 1-5924 Exhibit 10(a)).
- \*10(b)(15) Amendment No. 3 dated as of June 1, 2003, to Lease Agreements, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, under a Trust Agreement with IBM Credit, LLC as Owner Participant. (Form 10-Q for the quarter ended June 30, 2003, File No. 1-5924 Exhibit 10(b)).
- \*10(b)(16) Amendment No. 3 dated as of June 1, 2003, to Lease Agreements, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, under a Trust Agreement with Emerson Finance Co. as Owner Participant. (Form 10-Q for the quarter ended June 30, 2003, File No. 1-5924 Exhibit 10(c)).

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- \*10(b)(17) Amendment No. 3 dated as of June 1, 2003, to Tax Indemnity Agreement, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Philip Morris Capital Corporation as Owner Participant, beneficiary under a Trust Agreement dated as of December 1, 1985, with Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, together as Lessor. (Form 10-Q for the quarter ended June 30, 2003, File No. 1-5924 Exhibit 10(d)).
- \*10(b)(18) Amendment No. 3 dated as of June 1, 2003, to Tax Indemnity Agreement, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and IBM Credit, LLC as Owner Participant, beneficiary under a Trust Agreement dated as of December 1, 1985, with Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, together as Lessor. (Form 10-Q for the quarter ended June 30, 2003, File No. 1-5924 Exhibit 10(e)).
- \*10(b)(19) Amendment No. 3 dated as of June 1, 2003, to Tax Indemnity Agreement, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Emerson Finance Co. as Owner Participant, beneficiary under a Trust Agreement dated as of December 1, 1985, with Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, together as Lessor. (Form 10-Q for the quarter ended June 30, 2003, File No. 1-5924 Exhibit 10(f)).
- \*10(b)(20) Amendment No. 4, dated as of June 1, 2006, to Lease Agreement, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Wilmington Trust Company and William J. Wade, as Owner Trustee and Cotrustee, respectively, under a Trust Agreement with Philip Morris Capital Corporation as Owner Participant. (Form 8-K dated June 12, 2006, File No. 1-5924 Exhibit 10.1).
- \*10(b)(21) Amendment No. 4, dated as of June 1, 2006, to Lease Agreement, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Wilmington Trust Company and William J. Wade, as Owner Trustee and Cotrustee, respectively, under a Trust Agreement with Selco Service Corporation as Owner Participant. (Form 8-K dated June 12, 2006, File No. 1-5924 Exhibit 10.2).
- \*10(b)(22) Amendment No. 4, dated as of June 1, 2006, to Lease Agreement, dated as of December 1, 1985, between TEP and San Carlos, jointly and severally, as Lessee, and Wilmington Trust Company and William J. Wade, as Owner Trustee and Cotrustee, respectively, under a Trust Agreement with Emerson Finance LLC as Owner Participant. (Form 8-K dated June 12, 2006, File No. 1-5924 Exhibit 10.3).
- \*10(b)(23) Amendment No. 4, dated as of June 1, 2006 to Tax Indemnity Agreement, dated as of December 1, 1985, between TEP and San Carlos, as Lessee, and Philip Morris Capital Corporation as Owner Participant, beneficiary under a Trust Agreement, dated as of December 1, 1985, with Wilmington Trust Company and William J. Wade, as Owner Trustee and Cotrustee, respectively, together as Lessor. (Form 8-K dated June 12, 2006, File No. 1-5924 Exhibit 10.4).
- \*10(b)(24) Amendment No. 4, dated as of June 1, 2006 to Tax Indemnity Agreement, dated as of December 1, 1985, between TEP and San Carlos, as Lessee, and Selco Service Corporation as Owner Participant, beneficiary under a Trust Agreement, dated as of December 1, 1985, with Wilmington Trust Company and William J. Wade, as Owner Trustee and Cotrustee, respectively, together as Lessor. (Form 8-K dated June 12, 2006, File No. 1-5924 Exhibit 10.5).
- \*10(b)(25) Amendment No. 4, dated as of June 1, 2006 to Tax Indemnity Agreement, dated as of December 1, 1985, between TEP and San Carlos, as Lessee, and Emerson Finance LLC as Owner Participant, beneficiary under a Trust Agreement, dated as of December 1, 1985, with Wilmington Trust Company and William J. Wade, as Owner Trustee and Cotrustee, respectively, together as Lessor. (Form 8-K dated June 12, 2006, File No. 1-5924 Exhibit 10.6).

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- \*10(d) Participation Agreement, dated as of June 30, 1992, among TEP, as Lessee, various parties thereto, as Owner, Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, and LaSalle National Bank, as Indenture Trustee relating to TEP's lease of Springerville Unit 1. (Form S-1, Registration No. 33-55732 Exhibit 10(u)).
- \*10(e) Lease Agreement, dated as of December 15, 1992, between TEP, as Lessee, and Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-Trustee, respectively, as Lessor. (Form S-1, Registration No. 33-55732 Exhibit 10(v)).
- \*10(f) Tax Indemnity Agreements, dated as of December 15, 1992, between the various Owner Participants parties thereto and TEP, as Lessee. (Form S-1, Registration No. 33-55732 Exhibit 10(w)).
- +\*10(h) 1994 Omnibus Stock and Incentive Plan of UniSource Energy. (Form S-8 dated January 6, 1998, File No. 333-43767).
- +\*10(i) Management and Directors Deferred Compensation Plan of UniSource Energy. (Form S-8 dated January 6, 1998, File No. 333-43769).
- +\*10(j) TEP Supplemental Retirement Account for Classified Employees. (Form S-8 dated May 21, 1998, File No. 333-53309).
- +\*10(k) TEP Triple Investment Plan for Salaried Employees. (Form S-8 dated May 21, 1998, File No. 333-53333).
- +\*10(m) Notice of Termination of Change in Control Agreement from TEP to Karen G. Kissinger, dated as of March 3, 2005 (including a schedule of other officers who received substantially identical notices). (Form 10-K for the year ended December 31, 2004, File No. 1-5924 Exhibit 10(q)).
- +\*10(n) Amended and Restated UniSource Energy 1994 Outside Director Stock Option Plan of UniSource Energy. (Form S-8 dated September 9, 2002, File No. 333-99317).
- \*10(o) Asset Purchase Agreement dated as of October 29, 2002, by and between UniSource Energy and Citizens Communications Company relating to the Purchase of Citizens Electric Utility Business in the State of Arizona. (Form 8-K dated October 31, 2002, File No. 1-13739 Exhibit 99-1).
- +\*10(p) UniSource Energy 2006 Omnibus Stock and Incentive Plan. (Form S-8 dated January 31, 2007, File No. 333-140353).
- +\*10(q) Stock Option Agreement between UniSource Energy and Raymond S. Heyman dated as of September 15, 2005 (Form 10-K for the year ended December 31, 2007, File No. 1-13739, Exhibit 10(r)).
- +\*10(r) Management and Directors Deferred Compensation Plan II of UniSource Energy. (Form S-8 dated December 30, 2008, File No. 333-156491).
- +\*10(s) Letter of Employment dated as of December 9, 2008, between UniSource Energy and Paul J. Bonavia. (Form 8-K dated December 15, 2008, File No. 1-13739).
- +\*10(t) Amended and Restated Officer Change in Control Agreement, dated as of October 9, 2009, between TEP and Michael J. DeConcini (including a schedule of other officers who are covered by substantially identical agreements) (Form 8-K dated October 13, 2009, File No. 1-13739 Exhibit 10(A)).
- +\*10(u) Employment Agreement, dated May 4, 2009, between UniSource Energy and Paul J. Bonavia. (Form 10-Q for the quarter ended March 31, 2009, File No. 13739 Exhibit 4).
- +\*10(v) UniSource Energy Corporation 2011 Omnibus Stock and Incentive Plan. (Form 8-K dated May 10, 2011, File 1-13739 Exhibit 10.1).

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12(a) Computation of Ratio of Earnings to Fixed Charges UniSource Energy.

12(b) Computation of Ratio of Earnings to Fixed Charges TEP.

21 Subsidiaries of the Registrants.

23(a) Consent of Independent Registered Public Accounting Firm UniSource Energy.

23(b) Consent of Independent Registered Public Accounting Firm TEP.

24(a) Power of Attorney UniSource Energy.

24(b) Power of Attorney TEP.

31(a) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act UniSource Energy, by Paul J. Bonavia.

31(b) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act UniSource Energy, by Kevin P. Larson.

31(c) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act TEP, by Paul J. Bonavia.

31(d) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act TEP, by Kevin P. Larson.

\*\*32 Statements of Corporate Officers (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).

#\*101 The following materials from UniSource Energy's and TEP's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, formatted in XBRL (Extensible Business Reporting Language):

(a) UniSource Energy's and TEP's (i) Consolidated Statements of Income, (ii) Consolidated Statements of Cash Flows, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Capitalization, (v) Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income; and

(b) Notes to Consolidated Financial Statements.

# These exhibits are deemed furnished and not filed pursuant to Rule 406T of Regulation S-T.

(\* ) Previously filed as indicated and incorporated herein by reference.

(+ ) Management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by item 601(b)(10)(iii) of Regulation S-K.

\*\* Pursuant to Item 601(b)(32)(ii) of Regulation S-K, this certificate is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.