

“

They were islanders, our fathers were,
And they watched the encircling seas,
And their hearts drank in the ceaseless stir,
And the freedom of the breeze.

”

From *'Knowledge'* by Frederick George Scott
[Canadian poet, 1861 - 1944]



Caribbean Utilities Company, Ltd.

457 North Sound Road
PO Box 38 GT
Grand Cayman
Cayman Islands
Tel: (345) 949.5200
Fax: (345) 949.5203
E-mail: investor@cuc.ky
Website: www.cuc-cayman.com



Caribbean Utilities Company, Ltd.
2003 Annual Report

General Data

Cover Feature

The Islands' seafaring heritage began 500 years ago when sailors aboard Columbus' vessels on May 10, 1503 sighted "two very small and low islands, full of tortoises (turtles) as was all the sea all about, in so much that they looked like little rocks, for which reason these islands were called Las Tortugas". Since then, the Cayman Islands have been welcoming vessels of all shapes and sizes to our shores. In this, our 500th year of existence, the Quincentennial celebrations included a Seafaring Festival during the weekend of May 10 which commemorated our maritime heritage and Columbus' sighting. Tall ships and schooners from around the world were invited to take part in the pomp and pageantry as part of the Regatta and on the final day, open for tours by the public in the George Town harbour. The *Wolf*, a classic 74-foot Norfolk Rover class steel hull topsail schooner and flagship to the City of Key West, the Conch Republic, was a favourite with the crowds.



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Credits

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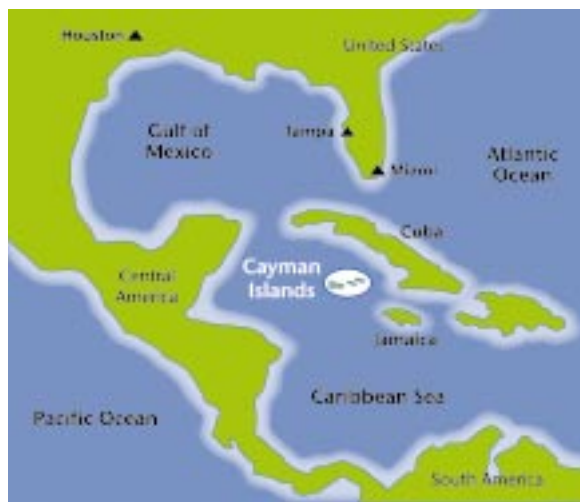
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About the Islands

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 43,000, are comprised of three islands: Grand Cayman, Cayman Brac and Little Cayman. Located 480 miles south of Miami and 180 miles west of Jamaica, the largest island is Grand Cayman with an area of 69.4 square miles. The islands, discovered by Christopher Columbus during his fourth and final voyage in 1503, were originally named "Las Tortugas" for their large turtle population. The islands later became known as "Cayman" representing the Carib word for crocodiles a large number of which existed at that time. A Governor, presently His Excellency Mr. Bruce Dinwiddy, is appointed by Her Majesty the Queen. A democratic society, Grand Cayman has a Legislative Assembly comprised of representatives elected from each of the Island's five districts as well as two representatives for the Sister Islands of Cayman Brac and Little Cayman.

Location



About the Company

Caribbean Utilities Company, Ltd. known locally as "CUC", commenced operations as the only electric utility in Grand Cayman in May 1966. The Company currently has an installed capacity of 115 megaWatts (MW), and a new record peak load of 77.06 MW was experienced in July 2002. Our 213 employees are committed to providing a safe and reliable supply of electricity to over 20,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's rapid development for the past 37 years. Today we are considered one of the most reliable and efficient power companies in the Caribbean.



Highlights

Financial Results in Brief

	2003 US\$	2002 US\$	% Change
Operating revenue	96,921,019	90,124,088	7.54%
Shareholders' equity	120,415,547	112,271,999	7.25%
Earnings for the year	20,190,261	19,275,048	4.75%
Capital expenditures	27,731,945	29,095,469	-4.69%
Total assets	274,127,320	245,900,574	11.48%
Customs duties and turnover fees paid to Government	15,987,836	15,569,037	2.69%
Interest expense and preference dividends	6,321,081	5,647,589	11.93%
Dividends	16,334,788	15,497,542	5.40%
Earnings per Class A Ordinary Share	0.80	0.77	3.90%
Dividends per Class A Ordinary Share (paid and declared)	0.635	0.610	4.10%
Book value per Class A Ordinary Share	4.69	4.44	5.63%
Class A Ordinary Shares			
Market price: High	12.65	13.50	-6.30%
Low	10.85	11.00	-1.36%
Year-end	12.40	12.33	0.57%
8% Class C, Series 2 Shares			
Market price: High	103.00	104.00	-0.96%
Low	98.00	96.25	1.82%
Year-end	98.50	100.00	-1.50%

Performance

The Company recorded slightly increased revenues and new peaks in demand. Operating revenues grew by 7.54% and earnings increased by 4.75%. The dividend payout rate continues to exceed 60% of earnings. Dividends on Class A Ordinary Shares increased by 4.10% from US\$0.610 to US\$0.635 per share. The Class A Ordinary Shares (CUP.U) traded on The Toronto Stock Exchange at a high of US\$12.65 per share.

Rate of Exchange

The closing rate of exchange as of April 30, 2003 as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was Cdn\$1.4334 per US\$1.00. The official exchange rate for conversion of Cayman Islands dollars into United States dollars, as determined by the Cayman Islands Monetary Authority, has been fixed since April 1974 at US\$1.20 per CI\$1.00. Thus, the rate of exchange as of April 30, 2003 for the conversion of Cayman Islands dollars into Canadian dollars was Cdn.\$1.7201 per CI\$1.00. Unless otherwise indicated, all dollar amounts in this Annual Report are given in United States dollars.

Share Performance

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



To Our Shareholders



Building on our past success, CUC continues to respond to customers' expectations of providing world-class service at fair, stable and transparent pricing that is regionally competitive while positioning itself to respond to future challenges by increasing operating efficiencies and creating sustainable shareholder value.

These strategies served us well in 2003, a year we considered one of transition from a period of high to more moderate growth. Earnings for the year were \$20,190,261, up from \$19,275,048 in fiscal 2002, representing a 4.75% increase. Earnings per Class A Ordinary Share increased 3.9% from \$0.77 to \$0.80. The Company increased its dividend by 3.23% in December 2002 to \$0.64 per Class A Ordinary Share on an annualised basis, reflecting our continuing policy of providing maximum shareholder value.

KiloWatt-hour (kWh) net generation grew to 429.3 million kWh from 414.6 million kWh, representing a 3.55% increase.

A new peak load record of 77.06 megaWatts (MW) was achieved in July 2002, a 1.41% increase over last year. CUC is currently supplying in excess of 20,000 customers. Overall system reliability remained strong, although the average service reliability index (ASAI) for calendar 2002 fell to 99.89% as a result of an all-island outage on January 1, 2002. Nevertheless, customer satisfaction ratings improved from 8.5 to 8.7 out of 10 from 2002 to 2003.

CUC's capital expenditure during the year totaled \$27.7 million. The major projects during the year were the 2003 generation expansion and the continued looped transmission system development. The generation expansion involves the installation of a third 12.25 MW V48/60 MAN B&W diesel unit and auxiliary equipment. This unit was commissioned this summer to meet growing electricity demand.

The focal points of the 2003 transmission and distribution (T&D) capital programme were the completion and commissioning of the Frank Sound 69 kiloVolt (kV) substation, the construction of the 69 kV overland transmission line from Bodden Town to Frank

Sound, and the completion of the eastern and western 69 kV submarine transmission loops. CUC expects to spend \$19.4 million in fiscal 2004 to accommodate future growth estimated at 4% over the next year and 5.5% in 2005. Projects such as The Ritz-Carlton resort and condominiums, the Kirk Harbour Centre and various timeshare and luxury condominium projects are well underway and will be connected during the next year.



Richard Hew, Executive Vice-President & Chief Operating Officer, Joseph Imparato, Chairman, and Peter A. Thomson, President & Chief Executive Officer.

To Our Shareholders

CUC submitted its returns for the year ended April 30, 2003, in accordance with the terms of its Licence with the Government of the Cayman Islands, confirming a 3% rate increase to customers on August 1, 2003. The increase is a result of the Company's capital investment programme and increased operating costs.

CUC's exclusive right to generate, distribute, transmit and supply electricity on Grand Cayman expires in 2011 with a right to enter into negotiations for renewal in 2006. The Company submitted a proposal to Government in July 2002 to extend its current Licence and replace the 15% return on rate base mechanism for adjusting consumer rates with a price-cap mechanism. This is a significant departure from the rate of return formula contained in the current Licence, as electricity rates will no longer be linked to earnings. Prices will instead be tied to and move with published inflation indices. Our proposal is proactive and responsible and is aimed at ensuring future least-cost, reliable electricity supply at equitable prices. We expect negotiations to begin within the next few months with the current Licence remaining in full force until a definitive extension is agreed to with Government. The Company submitted in May 2003 a full and proper allocated cost of service study, which it conducted over a 15-month period. The recommendations to adjust electricity rates between customer categories to align rates with the relative cost of service are before Government for approval. It is CUC's intention to inform its customers of the study results in due course. We also await the Cayman Islands Auditor General's final report on the special review it undertook of CUC's operations. The Company views this as a positive step in the Company's ongoing discussions with Government, and it expects the review to confirm that we have operated efficiently and properly.

The Cayman Islands economy grew 1.7% for the year ending December 31, 2002. The offshore financial and business service industry remained strong. Registered mutual funds grew by 17.46%, and captive insurance licences by 10.5% over the period. This translates into feeding growth in the legal and financial professions and into increased commercial office space occupancy, as well as increases in the number of residential customer accounts as expatriates are brought on island. Stay-over tourism continues to be affected with a -4.65% decline over 2002 but cruise ship arrivals were up by 22.17% in 2003.

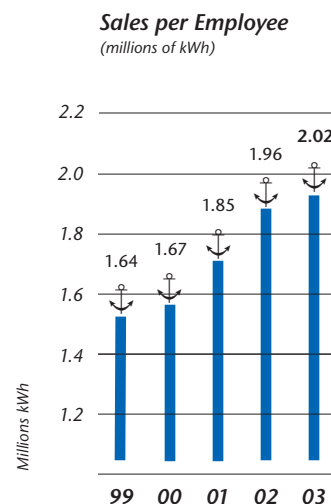
Our investment in technology continues to pay

dividends. We continue to enhance our position as the leading service provider by continually seeking ways to improve the ease of transactions for our customers while maintaining the number of our customer service employees. The greatest potential for improvements comes in utilising

online services. An estimated 68% of households in Grand Cayman are now online, and we will encourage our customers to take advantage of the billing, payment and "work requests" available on our website.

The Company continues to use its Energy Smart programme as a tool to promote and increase energy conservation and environmental protection awareness in the community as they relate to the industry. Customers must become more aware of their ability to lower electricity bills through responsible energy usage. CUC is seeking ISO 14001 registration within the next year as part of its commitment to the environment. We continue to investigate two alternate energy sources: wind power and ocean thermal energy conversion (OTEC). A report on the feasibility of wind power for Grand Cayman will be tabled in September 2003, while discussions have begun with Sea Solar Power of the United States on the terms of a power purchase agreement from a 10 MW OTEC facility.

The Board of Directors has also adopted a number of corporate governance initiatives which meet existing and proposed Toronto Stock Exchange requirements and accepted practices for publicly listed companies across North America. These initiatives include but are not limited to: the composition and remuneration of the Board of Directors and its committees; the creation of a new Nominating and Corporate Governance Committee; the disbanding of the existing Remuneration Committee; executive compensation; and the establishment of mandates for the Audit Committee and Nominating and



To Our Shareholders

Corporate Governance Committee, both of which can be downloaded in their entirety on the CUC website (www.cuc-cayman.com).

The Company's human resources mission is to attract high-potential candidates and maintain its employer of choice status by providing career opportunities and competitive compensation while fostering personal growth and development and community involvement. We have awarded 21 employee scholarships over the past 10 years, and we are realising the success of our investment with a strong mix of young and seasoned Caymanians completing and returning from their studies as accountants, engineers and technicians. We are well positioned to move into the future with Caymanians in leadership roles throughout the Company.

We congratulate our Employee of the Year, Angella McLean and we extend appreciation to the 20 long-serving employees recognised this year who collectively completed 330 years of service to our Company.

Joseph Imparato will retire after 17 years as Chairman of the Board of Directors at this October's Annual General and Special Meeting (AGM). We express our gratitude and appreciation for his leadership and are pleased that he will continue on as a Director. We would also like to extend our thanks to Messrs Ian Boxall, Robert Imparato and Bruce Drake for their service to the Company as Directors. We are pleased to announce that David Ritch, O.B.E., a CUC Director since 1988, has agreed to assume the Chairman's position following the AGM.

David stated in his keynote speech at our Long Service Award Ceremony in April, "The challenge for us going forward will be to take this Company to the next level of excellence, to carve a path that combines the best of what is new and fresh in both technology and young minds but also safeguards those tried and tested yardsticks of the past. We must strengthen our internal framework while maximising our returns to shareholders. And, above all else, we must never forget what is the



HRH Prince Edward, The Earl of Wessex (in hat), accompanied by His Excellency The Governor Bruce Dinwiddie, dedicated the Mariners Memorial in May 2003 during the Quincentennial's Seafarers Festival which commemorated the maritime heritage of the Islands. The Memorial honours Caymanian seamen who lost their lives at sea.

essence of the Company itself, namely its loyal and dedicated employees". We are excited about our future and look forward to David's guidance and wisdom.

This year marks the 500th anniversary of the Cayman Islands' discovery by Christopher Columbus. Seafaring has played an integral role in our recent history, as it was a way of life not too long ago for Caymanian men to leave their families and work overseas as merchant

marines. CUC has many employees and retirees who followed such a path before joining the Company. It is therefore fitting that our Annual Report theme this year focuses on Cayman's Quincentennial Celebration with a special emphasis on Cayman and CUC's seafaring heritage.

We congratulate management and staff for their commitment to CUC and solid performance. We are also grateful for your continuing support.

On behalf of the Board of Directors,

Joseph A. Imparato, *Chairman*

Peter A. Thomson, *President & Chief Executive Officer*

July 31, 2003

We Were Seamen Once

The Cayman Islands' economy has primarily consisted of tourism and offshore financial services over the past several decades, but it began with a very important sector that benefited the Islands and their people long before the age of cruise ships and fax machines. Seafaring was Cayman's prime industry for most of its 500-year history, as it was common for Caymanian men to work the sea as merchant marines and leave their families

behind for long periods of time. These men would find employment on cargo ships traveling worldwide and carrying all kinds of goods and products, learning new skills on the job and preparing for different careers once they returned to the Island.

CUC is very fortunate to have many employees and retirees who began their careers in seafaring before joining the Company. These men gained invaluable operational experience while working on their respective vessels and thus were able to apply their knowledge upon commencing and advancing their careers at CUC. Their stories are also quite

informative and entertaining and form a significant part of Cayman's heritage.

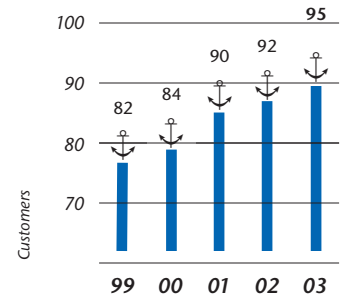
"Working on a ship was a lot like going to school," recalls Alvin McLaughlin, Supervisor Facilities Maintenance, who spent 23 years on the sea. "This was the greatest job in the world. Everything I know I learned on ships. I had a number of jobs over the years and worked my way up to Chief Pump Man, which made for an easy transition once I returned home and began working at CUC."

Indeed, many similarities exist between the demands of seafaring and the responsibilities of working at the Company. "We worked in an environment that required organisation, discipline, structure and teamwork, all of which I also found at CUC," explains David Parsons, Heavy Duty Mechanic, a 20-year seaman. "It was very demanding but rewarding work."

"It was very important to manage your time properly, adds CUC retiree Selbert "Mr. Bert" Jackson. "I also spent a lot of time aboard diesel-engine ships, which prepared me for my career working with our diesel generators at CUC."

Eddie Johnson, Grounds Maintenance Foreman, and another longtime seaman, notes, "The feature of working shifts on ships was very similar to the day-to-day routine at the Company. We found ourselves involved in everything from deckwork to being responsible for the navigation of the ship, We were also subject to United States maritime regulations, which made it very important to keep our vessels in good working order at all times."

Customers per Employee
(number of customers)



Alvin McLaughlin spent 23 years at sea



David Parsons spent 20 years at sea



The 69 kV GIS Frank Sound Substation was energised in September 2002 to enhance the reliability of electrical service and to accommodate future load growth in the eastern districts. This substation is the second in a series of newly designed indoor substations.

We Were Seamen Once

*"I also spent a lot of time aboard diesel-engine ships, which prepared me for my career working with our diesel generators at CUC."
[Selbert "Mr. Bert" Jackson]*



Geovany Rodriguez, Heavy Duty Mechanic, assists with extracting a piston liner during maintenance on a generating unit.

We Were Seamen Once

Another interesting aspect of seafaring was that merchant marines traveled around the world with their vessels, delivering cargo to ports they likely otherwise would never have seen. For example, Alvin spent much of his time aboard a crude oil ship, the *Ulysses*, that sailed throughout the Middle East, Africa and Europe, delivering oil to such countries as Iraq, Iran, Libya, South Africa and Romania. Another seafaring veteran, Ransford Andrews, Supervisor Mechanical Maintenance, remembers transporting lumber to Honduras, British Honduras (now Belize) and Guatemala, as well as moving cement from Colombia to the Cayman Islands.



Selbert Jackson spent 8 years at sea

Working abroad also enabled Caymanian seamen to make new friends from various countries. Alstead “Bud” Glidden, Supervisor Mechanical Maintenance, comments, “Working with people from other countries was a learning experience in tolerance and acceptance of those who were from different



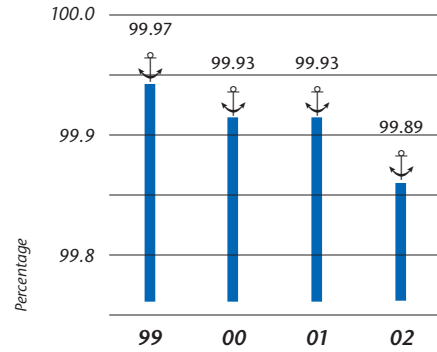
Eddie Johnson spent 6 years at sea

backgrounds.” David notes, “I really enjoyed meeting people with different nationalities and learning about their homelands and cultures. The men who worked the ships were not the best educated but were highly intelligent and knowledgeable about their jobs, which greatly added to the experience.” Another joy for the seamen, according to Eddie, was meeting their fellow Caymanians in different ports and sharing the latest news from the Islands.”

Of course, visiting different ports of call created lifelong memories for anyone who worked as a merchant marine. CUC retiree Stanton Ebanks recalls stopping in Colombia and witnessing several of the natives walk the streets naked, a custom that is not condoned in most societies. Alvin adds that war broke out in the Congo while his ship was in the region. “I remember that there were mines in the area, and submarines floated alongside our ship to protect us,” he explains. “The subs stayed with us for three hours until the mines were cleared and we could

System Availability

(data for the year ended December 31)



head to shore. That was a hair-raising experience.”

Seafaring also had its share of hardships, both on the merchant marines and their families back in Cayman. Shipping companies typically paid their wages in United States dollars, and the seamen would usually send the majority of their paychecks to their families to help make ends meet back home. “People in Cayman would assemble at the Post Office when the mail arrived since it often contained money from the men overseas,” David elaborates. “The Postmistress would call out families’ names to distribute mail to wives, girlfriends and family members. The seamen would arrange with their employers to allocate a certain amount of their paychecks to send home.”



Alstead “Bud” Glidden spent 9 years at sea

“There was a real onus on Caymanians to make their living on the sea, since this was the primary source of income for many families,” Stanton adds. “Seafaring provided a valuable financial resource for the Cayman Islands.”

“This was a very difficult period for the women who stayed behind while their husbands were at sea,” Alvin notes. “They would tend to their farms, maintain their homes and take care of their children, often with very little help. It is a real shame that these women have not been properly honoured for their contributions to the Cayman Islands.”

We Were Seamen Once



CUC prides itself on being one of the most reliable and efficient power companies in the Caribbean.

We Were Seamen Once

Furthermore, many seamen were often away from the Island for most of each year and thus were unable to see their loved ones as much as they would like. Ransford, for example, worked on a cargo ship for more than 12 years without taking a vacation. These long

separation periods were difficult on the men, who appreciated receiving mail from the Island and learning about what was occurring with their families back home.

Despite the hardships, most Caymanian seamen would agree that they benefited greatly from their

seafaring experiences, professionally and personally. “I had an adventurous career, one I

enjoyed and will never forget,” Eddie says. Alvin described his time at sea as “the best in the world.”

The seafarers’ legacy has been observed by the Cayman Islands during this year’s Quincentennial

Celebrations in the form of the newly created National Heroes Day holiday in January and the

Seafarers’ Day in May, which replaced the Discovery Day holiday in 2003 in order to highlight and to give special recognition to Caymanian seamen during the

Quincentennial Celebrations. This Annual Report contains some photos

and quotations from this very important period, and anyone who worked the sea will likely be more than happy to sit down and reminisce his experiences abroad.



Ransford Andrews spent 19 years at sea

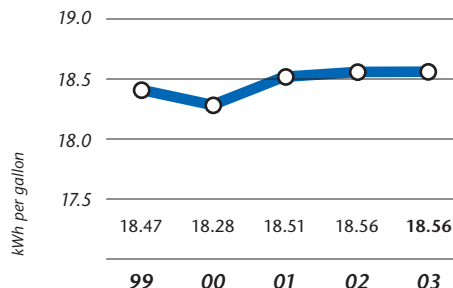


Stanton Ebanks spent 12 years at sea



Aurelio Rochez spent 19 years at sea

Fuel Efficiency
(kWh per gallon)



Caymanian seamen are rightfully proud of their contributions to the Island’s economy, history and culture, and many hope their stories will not be lost on future generations who will make their living pursuing other occupations. “Caymanian seamen were among the most reliable, responsible and courageous in the world,” Eddie states.

Aurelio Rochez, Supervisor Mechanical Maintenance, and a 19-year seafaring veteran, adds, “If young Caymanians take our knowledge and learn from it, our country would be all the better for it.”

“This was the greatest job in the world.”

[Alvin McLaughlin commenting on his time at sea]

Community Involvement



CUC has taken the lead in community involvement by focusing on the needs of the youth of the Cayman Islands and endeavouring to become a positive influence in their lives. Our Community Involvement Team's slogan is "Cayman's Youth Deserve All the Power We've Got," and the Company has continued its record as an excellent corporate citizen and influential community leader by providing financial support and voluntarism to many worthy projects, including:

- » Sponsorship of after-school programmes across the Island. Several CUC employees also regularly volunteer their times at these programmes.
- » Major sponsorship of Camp Hope, a two-week annual summer camp coordinated by the Agape Family Life Worship Centre and the Royal Cayman Islands Police (RCIP). This camp attracts approximately 250 children.
- » Partnership with the Rotary Club of Grand Cayman to subsidise the Youth Meals Programme and the five-week Rehoboth Summer Camp, which was attended by approximately 50 children.
- » Purchase and installation of playground equipment and painting of picnic tables at the Scranton Community Park.
- » Restoration of cabanas and replacement of playground equipment at the Seven Mile Public Beach.
- » Annual donation to the Drug Abuse Resistance Education (D.A.R.E.) programme as part of a five-year affiliation with the RCIP.
- » Hosting of an annual summer vocational programme for John Gray High School students with the support of MAN B&W, ABB and R.W. Beck, CUC's strategic alliance partners. This programme, now in its fifth year, is conducted at the North Sound Road Power Plant and combines classroom and hands-on training of basic work and life skills under the supervision of CUC employees.
- » Continuation of special friendships with the Sunrise Adult Training Centre and the Lighthouse School and the hosting of events such as Thanksgiving luncheons, pizza/movie socials, annual Sports Day activities, and Easter and Christmas parties.
- » Administration of CUC's Children's Fund, to which many employees make monthly contributions. Over \$3,000 was collected in fiscal 2003. This year's contributions purchased school uniforms and accessories for the children of needy families who are closely affiliated with CUC.



Employee participation in projects the Community Involvement Team organises is the key to the programme's success. Caren Thompson, Manager Corporate Communications, reads with enthusiastic participants at a CUC-sponsored summer camp.

Honours

As the Islands celebrate our Quincentennial year with festivities and accolades galore, the CUC family was privileged to witness the bestowing of high honours on two current employees and two recently retired employees. **Alvin McLaughlin**, *Supervisor Facilities Maintenance*, was honoured on National Heroes Day in January; and **David Ritch**, *Director and Chairman Designate*, and retirees **Selbert Jackson** and **Laten Bush** were honoured on the Queen's Birthday in June.

The highlight of the Quincentennial Celebrations so far was the opening of Heroes Square in the capital, George

Town, where a Wall of Honour with the names of 500 heroes past and present was dedicated and unveiled on National Heroes Day in January 2003. **Alvin McLaughlin** had the distinct honour of being named among this distinguished group of individuals. An employee with the Company for the past 22 years, Alvin has actively participated in numerous community projects that are mostly centred on Cayman's culture and heritage. He has served as Chairman of the East End

Pirates Week Committee for the past 21 years winning numerous float parades and District Day awards. Additionally, Alvin has been a board member of the Cayman National Cultural Foundation for the past 10 years and he has been serving on the Central Planning Board for more than seven years. He has been involved with the Cayman Islands Agricultural Society for the past 10 years and currently serves as vice-president and a member of its board. In 1997, his dedication to his community earned him the Cayman Islands Certificate and Badge of Honour for his contributions to preserving the heritage of the Islands.

As a United Kingdom Overseas Territory, the Cayman Islands celebrate the birthday of HRH Queen Elizabeth II in June. Patriotism is the topic of the day as Islanders celebrate the Queen's birthday with a parade, pageantry, a royal salute and breaking out of the royal standard. Queen's Birthday honours are conferred on members of the community who have served their country admirably in their careers.

CUC Director and Chairman Designate **David Ritch** was made an Officer of the Most Excellent Order of the British Empire (Civil Division) (O.B.E.) for services to Government and the community. An attorney by trade, David has been a CUC Director for the past 15 years. His

distinguished career in the legal field began in 1976 when he qualified as a Barrister-at-Law in England. After qualifying, he returned to the Cayman Islands where he worked for the Crown before forming the law firm Ritch & Conolly with his step-father Warren Conolly (a former CUC Director and now Director Emeritus) in 1983. His legal expertise has been influential in serving as Chairman of numerous boards, including the Planning Appeals Tribunal, the Labour Law Appeals Tribunal, the Caymanian Protection Board, the Port Authority of the Cayman Islands and the Trade and Business Licencing Board. He was also a member of the Cayman Islands Currency Board and Development Advisory Board, and since May 2002, David has served as Chairman of the Immigration Board.



David Ritch

Selbert "Mr. Bert" Jackson was awarded the Cayman Islands Certificate and Badge of Honour (Cert. Hons.) for services to the development of the Cayman Islands and the community. Mr. Bert was one of CUC's first employees when the Company commenced operations in 1966 and as a 'Veteran of Power', he helped lay the foundation on which the Company and the community has grown. Mr. Bert retired in May 2001 as Manager Mechanical Maintenance.



Selbert Jackson

Recently retired **Laten Bush** was also awarded the Cayman Islands Certificate

and Badge of Honour (Cert. Hons.) for services to the development of the Islands and the community. Like most young Caymanian men, Laten went to sea in 1959 and for 10 years served as a cook. Following stints in the tourism sector and construction industry, he joined CUC in 1982 and worked in the Customer Service Department as a Meter Reader and later as a Customer Service Representative until his retirement in June 2002. Apart from his family, his greatest love has been his work in the Wesleyan Holiness Church since becoming a member in 1969. He has served as Sunday School teacher, counsellor, part of the hospital ministry and now serves as Assistant Pastor.



Laten Bush

The Board of Directors, management and staff congratulate Alvin, David, Selbert and Laten on their prestigious awards. Their service to the development of these Islands epitomises the loyalty and dedication of Caymanians as a whole.



Alvin McLaughlin points to his name which is amongst 500 others honoured on the Wall of Honour that was dedicated on National Heroes Day in January.

Management's Discussion and Analysis



The following management's discussion and analysis should be read in conjunction with the financial statements included in this Annual Report. Its purpose is to provide supplemental analysis and background material to provide an enhanced understanding of the Company's business and prospects.

Operating Activities

Operating revenues increased to \$96.921 million, up 7.54% over 2002 revenues of \$90.124 million. This reflects a 5.62% increase in basic revenue (\$80.5 million for 2003 versus \$76.2 million in 2002). Fuel adjustment revenue increased 18.10% (\$16.4 million versus \$13.9 million in 2002), which reflects higher fuel prices as compared to the same period last year. The Company's Licence with the Government provides for adjustments to be made to the charges billed to customers to reflect variations in the cost of diesel fuel used in the generation of electricity. Such adjustments are made on a monthly basis such that variations in the cost of fuel are passed on directly to consumers.

The growth in basic revenue was driven by the implementation of a 3% increase in electricity rates on August 1, 2002, increased demand, an increase in average consumer consumption, and an increase in our customer base. KiloWatt-hour (kWh) sales increased 3.55% from 414.6 million kWh in 2002 to 429.3 million kWh in 2003. Total customers increased 3.42% from 19,598 in 2002 to 20,269 in 2003.

The Cayman Islands' economy grew at an estimated rate of 1.7% for the calendar year ending December 31,

2002. The Government is projecting an economic growth of 2.3% for the 2003/2004 fiscal year. This moderate economic growth is in line with economic activity and projected economic growth in the United States, to which the Cayman Islands economy is closely linked. Stay-over tourism, which showed positive growth in the first half of the year, declined by 4.65%, year-over-year. Worldwide land-based tourism continues to be influenced by lingering effects from the 9/11 disaster, and more recently, by the Iraq war and SARS outbreak. Government has responded with a new marketing strategy involving new television advertisements and increasing market access.

Cruise ship tourism, which has a significant multiplier effect on the economy and is positive to Government revenues, continues to show robust growth. For the twelve months ending March 2003, cruise ship tourism in the Cayman Islands grew by 22.17% to more than 1.6 million visitors.

Stay-over tourism will benefit greatly from the opening of the five-star Ritz-Carlton resort and condominiums in 2004, as well as the Cayman Shores Development, the 49,000-square foot Citrus Grove Building, and the 67,000-square foot Kirk Harbour Centre retail shopping and office complex.

The financial services industry, the other major pillar of the Cayman Islands economy, remains stable notwithstanding the mergers and consolidation taking place in the international financial industry, and new Monetary Authority regulations requiring banks to establish a physical presence on the Island.



The Cayman Turtle Farm, one of Grand Cayman's premier attractions, is undergoing a US\$33 million multi-phase facelift over the next few years. A turtle breeding pond was recently completed and construction on the reception and administration building (above) will commence in early September 2003. Once completed, the Turtle Farm will be spread over a 20-acre site.

Management's Discussion and Analysis

The following tables present sales and customer highlights, and tourist statistics for the year ended April 30:

	2003	2002	Change
Customers (#)			
Residential	17,053	16,448	3.68%
Commercial	3,216	3,150	2.10%
Total	20,269	19,598	3.42%

	2003	2002	Change
Sales (1)			
Residential	203,039	193,962	4.68%
Commercial	221,923	216,342	2.58%
Other (street lighting, etc.)	4,320	4,274	1.08%
Total sales	429,282	414,578	3.55%

	2003	2002	Change
Revenues (2)			
Residential	38,995	36,494	6.85%
Commercial	40,867	38,953	4.91%
Other (street lighting, etc.)	671	800	-16.13%
Fuel adjustments	16,388	13,877	18.09%
Total operating revenues	96,921	90,124	7.54%

Notes: (1) in thousand of kWh; (2) in thousands of US\$.

Tourist Statistics:

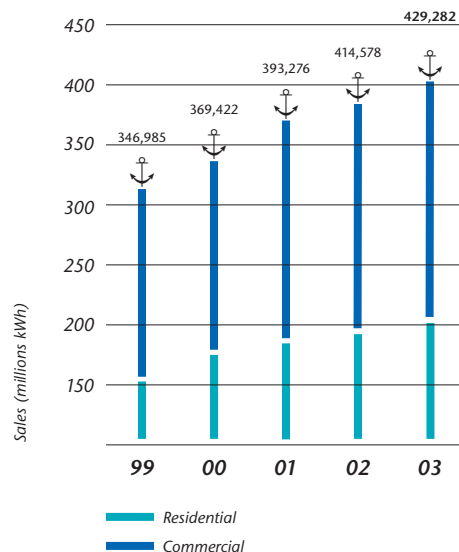
Arrivals	2003	2002	2001	2000	1999
By Air	298,723	313,277	334,719	321,014	330,490
By Sea	1,676,652	1,372,364	1,022,643	1,050,983	955,869

Source: Department of Tourism, Cayman Islands Government

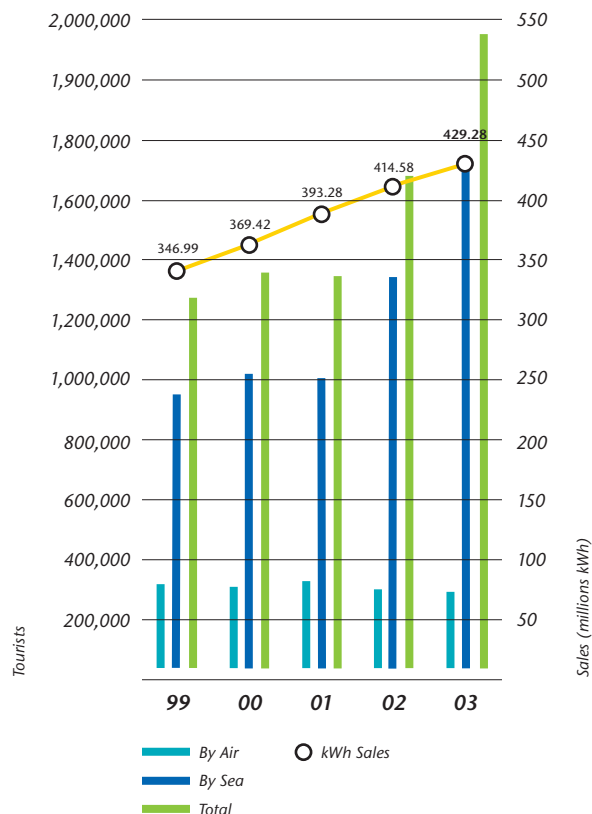
Government and the Economy

As indicated above, economic growth in the Cayman Islands continues to be in line with economic performance in the United States. A key Government strategy for economic growth is to put its 'own house in order'. It achieved considerable success in this regard with the introduction of a new budgetary process that is more strategic and performance oriented, and which is part of a comprehensive programme of public management reforms. These reforms include moving to a new fiscal year that is more in tune with business cycles on the Islands, the floating of a bond issue for the purpose of debt consolidation and capital projects development, and placing a 'ceiling' on public borrowings of 10% debt-service ratio. The 2003/2004 Government budget has a debt-service ratio of 5.3%, which is well within the 10% limit established by the Principals of Responsible Financial Management. In

Residential and Commercial Sales



Tourism and Sales



Management's Discussion and Analysis

addition, the 2004 Government budget projects an overall budget surplus.

Government is moving aggressively to address the country's physical infrastructure needs as a prerequisite for continued economic development. These include major improvements to road infrastructure, the building of additional office space for Government ministries and departments, the construction of two new schools, expansion of the principal international airport, and the development of the port. Most of these projects will be financed through public finance initiative (PFI) programmes.

Government's strategy of balancing the national budget, reforming the public sector, and making prudent public sector investment is designed to restore investor confidence.

The construction and real estate industries are responding favourably to stimulus measures recently implemented by Government. For example, recent changes to the building code increased the permitted heights of buildings from five stories to seven stories. This move has stimulated the redevelopment of older properties like the Caribbean Club, and has made the economics more attractive for new development.

Financial Sector

The Cayman Islands is one of the world's largest



Photo by Justin Uzzell

Construction is well underway on the 144-acre \$350 million Ritz-Carlton Resort on world-famous Seven Mile Beach. This seven floor structure, situated on 5.9 acres of beach site, houses 69 luxury residences and is scheduled to open in late summer 2004. An elevated walkway above West Bay Road adjoins the residences with the hotel section of the development across the road.

international financial centres with over 500 banks and trust companies with assets of \$747.6 billion, 600 captive insurance companies with assets of \$14.3 billion, and 4,285 mutual funds with assets of \$215 billion. The Cayman Islands is a mature and highly respected international financial centre and despite world and multinational events that have resulted in offshore financial centres coming under greater scrutiny, the Cayman Islands' financial industry has remained stable.

Confidence in the Cayman Islands as a financial domicile was enhanced when in June 2001 the Financial Action Task Force (FATF), created at the 1989 G7 Economic Summit, removed the Cayman Islands from its blacklist of non-cooperating jurisdictions on money laundering. Furthermore, advance commitments to the Organisation for Economic Cooperation and Development and the signing of a tax treaty with the United States have demonstrated the Cayman Islands' resolve to provide the highest level of financial services in meeting internationally accepted standards.

More recently the Government demonstrated that while it was willing to cooperate in the international fight against terrorism and money laundering, it was equally willing to stand up against the European Union (EU) Savings Tax directive which it determined was unfair and against the recognised concept of a "level playing field". In March 2003, the Cayman Islands won an injunction in the EU Court of First Instance prohibiting the EU to directly impose the directive on the Cayman Islands.

The financial services sector has shifted its focus from individual investor services to institutional investor services. The Cayman Islands Stock Exchange continued to show sterling growth with a 7.0% increase in listings to 710 as of December 31, 2002 (2001: 418), representing an aggregate market capitalisation of \$36.3 billion.

Bank and trust licences fell from 545 in 2001 to 508 as of December 31, 2002. The decline in bank and trust licences continues to be driven by mergers and consolidation in the international financial industry. Also, there were some retrenchments in this area as a consequence of a new policy introduced by the Monetary Authority requiring banks without a physical presence on the island to establish or surrender their licences.

The continued strength of the Cayman Islands as an international centre can be seen in the table "Growth in Financial Sector" on page 15.

Rates and Licence

As outlined in greater detail in the "Capital Expenditures" section, ongoing capital expenditure projects and increased operating costs have necessitated a 3% increase across the board in our basic tariff structure on August 1, 2003. The Company's Licence provides for customer tariffs to be adjusted upward or downward

Management's Discussion and Analysis

each year to provide the Company with a 15% rate of return on its Rate Base.

Licence Extension Proposal Update

CUC's exclusive right to generate, distribute, transmit and supply electricity on Grand Cayman expires on January 17, 2011 with a right to enter into negotiations for renewal in 2006. The Company submitted a proposal to Government in July 2002 to extend its current Licence and replace the 15% return on rate base mechanism for adjusting consumer rates with a price-cap mechanism. This is a significant departure from the rate of return formula contained in the current Licence as electricity rates will no longer be linked to earnings. Prices will instead be tied to and move with published inflation indices. CUC's proposal is proactive and responsible and is aimed at ensuring future least-cost, reliable electricity supply at equitable prices. CUC anticipates that through its focus on cost control and continued management of capital expenditure it will have the potential to achieve returns equal to current levels.

Under the proposal, CUC would continue to recover fuel costs under its monthly fuel adjustment. The proposal also provides for the continued full recovery of regulatory costs and Government levies. To ensure that pricing is equitable, the recommendations of the allocated cost of service study (which is described more fully in the "Allocated Cost of Service Study" section) will be considered in the future rate structure.

Government recently appointed its negotiating team to discuss the Company's proposal and to negotiate a new Licence. An initial meeting was held in July 2003 with the Minister responsible for utilities and members of the negotiating

team to lay out a timetable for concluding the negotiations. The Company expects that the pace of the negotiations will accelerate in the fall.

While the Company is desirous to conclude an early extension of its Licence, the terms must be fair to the Company and its shareholders. The current Licence will remain in full force until a new Licence is agreed with Government. We believe that in small-island economies, competition in the electrical utility industry is not economically viable. In addition, the proposal to Government for a Licence extension anticipates a sole supplier arrangement.

Allocated Cost of Service Study

CUC submitted to Government in May 2003 a full and proper allocated cost of service study which it conducted over the past 15 months. The objectives of the study are to ensure fair, cost-based electricity pricing, to eliminate subsidised consumption and to develop a demand rate for large consumers. The study, which was conducted by R.W. Beck consulting engineers of the United States, contains certain recommendations to Government to adjust the electricity rates between customer categories to align rates with the relative cost of service.

Government Financial Audit and Special Review of CUC

The Cayman Islands Government notified CUC in spring 2002 of its intention to instruct the Cayman Islands' Auditor General to conduct a special review of the Company's operations. CUC agreed to this special review as it is viewed as a positive step in the Company's ongoing Licence extension discussions with Government. The review was conducted and a draft report issued last October, which indicated that the Company was not in any material breach of its Licence. CUC expects that the Auditor General will issue a final report in September 2003.

Growth in Financial Sector

(data for years ended December 31)

	2002	2001	2000	1999	1998
Bank and Trust Licences	508	545	580	570	584
Registered Companies	65,259	64,495	59,922	50,951	45,169
Mutual Funds	4,285	3,648	3,014	2,271	1,979
Mutual Fund Administrators	230	217	202	175	161
Captive Insurance Companies	600	543	516	497	485

Source: Cayman Islands Monetary Authority and The Registrar of Companies



The 49,000-square foot Citrus Grove Building is located on the southern outskirts of George Town in an area now booming with development. The facility is scheduled for opening in August 2003.

Management's Discussion and Analysis



Operating Expenses

Operating expenses for the years to April 30 were as follows (US\$ thousands):

	2003	2002	Change
Fuel and lube oil costs	40,949	37,792	8.4%
Other generating costs	3,526	4,075	-13.5%
General and administration	8,127	7,653	6.2%
Customer service and promotion	1,339	1,269	5.5%
Distribution	1,585	1,765	-10.2%
Depreciation and amortisation	11,767	10,358	13.6%
Maintenance	5,677	4,709	20.6%
	32,021	29,829	7.3%
Total operating expenses	72,970	67,621	7.9%

Operating expenses, exclusive of fuel and lube oil, increased 7.3% from \$29.8 million in 2002 to \$32.0 million in 2003. Fuel and lube oil costs, CUC's most significant operating expenses, increased 8.4% from \$37.8 million in 2002 to \$40.9 million in 2003. Overall operating expenses increased 7.9% to \$73.0 million.

The Company completed several major capital projects in 2003 resulting in the commencement of depreciation as well as the expensing of related interest hitherto capitalised. Depreciation increased 13.6% to \$11.8 million while interest expense, including preference dividends, increased 11.9% to \$6.3 million. CUC expects a flattening in its depreciation and interest expenses on a going-forward basis as it completes its looped transmission system development. Maintenance expense increased 20.6% in line with planned cyclical generator maintenance.

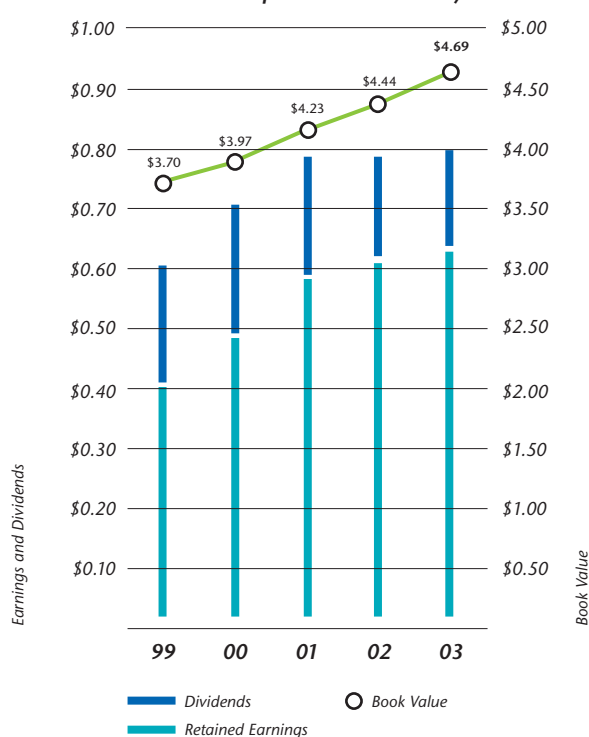
Decreases in other generating expenses were primarily the result of savings arising from the termination of the Caterpillar contract and reduction of water purchases. CUC's personnel are now trained to carry out the service that was previously subcontracted to Caterpillar.

The 10.2% year-over-year reduction in distribution maintenance expenses is attributable to the concentration of the Transmission and Distribution (T&D) and the T&D Planning departments on the completion of the T&D capital projects described more fully in the "Capital Expenditures" section. The result of this was that less routine maintenance was carried out.

The year-over-year increase in customer service and promotion expense of 5.5% is due to increased customer service related initiatives.

The 20.6% increase in maintenance is the result of normal cyclical maintenance of generating units, which is based on running hours. This increase was expected and

Performance per Class A Ordinary Share



budgeted for. In addition, 2002 maintenance (\$4.7 million) was below normal as a result of capital work being carried out on a number of generating units.

Other Income and Expenses

Finance charges increased by 11.9% as a result of ceasing capitalisation of interest during construction, which is consistent with Canadian GAAP, on capital projects that were completed during the year. Interest during construction (IDC) amounted to \$1,891,256 in 2003 (2002: \$2,409,183).

Foreign exchange gain increased by 24.7%. Foreign exchange, which results primarily from fuel oil purchases, was increased by foreign exchange gains resulting from the repayment of short-term debt totaling \$15 million.

Other income includes interest income of \$16,145 (2002: \$189,059) on investments held for insurance reserves, which now totals \$4,000,407 (2002: \$3,580,595).

Insurance

The Company maintains property insurance (for the estimated replacement cost of buildings, plant generating equipment and substations), business interruption insurance, and machinery breakdown insurance, with

Management's Discussion and Analysis

major international insurers to provide compensation in the event of hurricane damage, mechanical breakdown or other catastrophes, subject to a limit of \$100 million. CUC also maintains liability insurance policies and employee-related insurance coverages. In recent years, the insurance industry worldwide has experienced extraordinary losses, and property insurance for T&D

assets has become very limited. Based on quotations received during the July 2003 insurance renewal process, CUC concluded that T&D insurance is uneconomical and it has decided not to obtain this coverage. In order to cover increased deductibles and uninsured risks, CUC maintains segregated insurance reserves in the amount of \$4.0 million as well as a \$1.5 million standby line of credit.

Earnings

Earnings for 2003 were up 4.75% to \$20,190,261 over 2002 (\$19,275,048). Earnings per Class A Ordinary Share increased to \$0.80 from \$0.77 in 2002. Fully diluted earnings, as disclosed in Note 10 to the financial statements, were \$0.79 per Class A Share (2002: \$0.76).

Capital Expenditures

CUC's capital expenditure during the year totaled \$25.8 million (excluding interest capitalised during construction of \$1.9 million). The major capital projects during the year were the 2003 generation expansion and the looped transmission system development. The generation expansion involves the installation of a third 12.25 MW V48/60 MAN B&W diesel generating unit and auxiliary equipment. This unit was commissioned August 1, 2003 to meet growing electricity demand.

The focal points of the 2003 T&D capital programme were the completion and commissioning of the Frank Sound 69 kV substation, the construction of the 69 kV overland transmission line from Bodden Town to Frank Sound, and the completion of the eastern and western 69 kV submarine transmission cables.

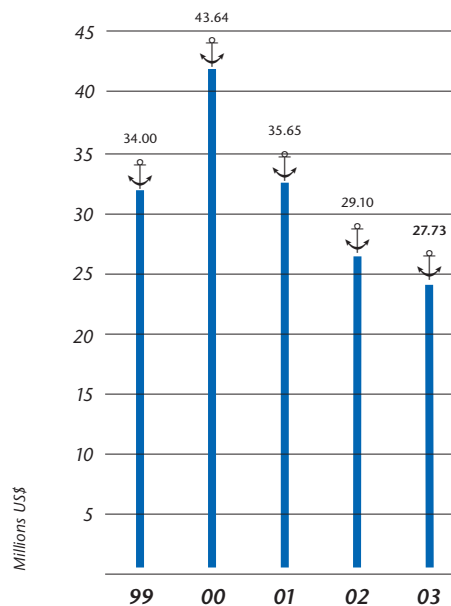
Capital Resources

During the year, the Company raised \$40 million in the private debt market in the United States. The debt offering was privately placed with three institutional investors in the United States. Proceeds from the offering were used to



The newest 12.25 MW V48/60 MAN B&W diesel generating unit arrived in February 2003 and will be in full service by August 2003.

Capital Expenditures



repay short-term indebtedness, to finance ongoing additions to the Company's generation capacity and T&D system, and to finance the second and final redemption of the issued and outstanding 8% Cumulative, Redeemable Class C, Series 2 Preference Shares.

The funds were drawn down in two tranches: the first tranche of \$20 million was closed on April 23, 2003, and the second tranche of \$20 million was closed on June 3, 2003.

The Company redeemed the 50% balance (60,075) of the issued and outstanding 8% Class C, Series 2 Preference Shares from shareholders at the issue price of \$100.00 per share on June 20, 2003.

Retained earnings increased to \$67.1 million (up from \$46.5 million in June 2002) as the Company continues to vote dividends of 9% Cumulative, Participating Class B Preference Shares and Class A Ordinary Shares from Share Premium.

Cash from operations totaled \$36.4 million (2002: \$27.2 million). Cash on hand at year-end stood at \$13.1 million (2002: \$4.9 million).

During the year the Company issued an aggregate of 396,375 (2002: 203,943) Ordinary Shares pursuant to the exercise of stock options previously granted or under the Company's Customer Share Purchase Plan, Employee Long Service Bonus Plan, or Dividend Reinvestment Plan.

Our Employees



Angella McLean, Assistant Supervisor Collections, Customer Service Department, and 2002 Employee of the Year.

These employees were rewarded for performing exemplary internal and external customer service, which has significantly contributed to the Company's performance and success.



John Thompson, Computer Network Administrator, IT Department.



Denise McLaughlin, Accounts Clerk Treasury & Banking, Financial Services Department.

Our Most Valuable Asset



Donovan Williams, Security Guard, Security Department.



Alfonso Green, Messenger/Office Clerk, General Services Department.



Kevin Allen, Customer Service Representative, Customer Service Department.



Ernie Ebanks, Assistant Supervisor Billing, and James Bernard, Meter Reader, Customer Service Department.



Carlos Rivers, Stores Clerk, Materials Management Department.

Where Your Dollar Went

24 ¢

Capital Expenditures

US\$27.7 million was spent on the new 12.25 MW diesel generating unit and upgrading of the transmission and distribution system.

“Georgetown is a Port of Registry, having on its register 50 small sailing vessels and 9 small steam and motor driven craft, with a total tonnage of 3,843 tons. Five vessels with a total tonnage of 157 were built in 1924.”

[from Colonial Reports, Cayman Islands (Jamaica) 1924]

15 ¢

Labour & Materials

Our dedicated team of over 213 employees and well-maintained equipment provide a safe and reliable electricity service.

“Caymanians began building vessels about 1800 for trading and fishing. Early boatbuilders had only local materials like mahogany to use. Builders stalked buttonwood swamps to find mahogany that had been windblown to curves which would suit their needs. Sometimes men would bend a sapling to the shape and wait 20 years for it to grow. Caymanian boats have been used as cargo carriers, mail boats and pleasure boats, but most were turtling schooners. This industry sustained Cayman’s economy for about 150 years. By the end of World War II shipping companies lured Caymanians away from local industry with high wages and benefits. Local yards could not compete and the industry died.”

[from Nor’wester Magazine, March 1974 and April 1983]

The Mariners Memorial was dedicated by HRH Prince Edward, The Earl of Wessex, on Saturday, May 10, 2003 as part of the Quincentennial Seafarers Festival celebrations which commemorated the Islands’ maritime heritage. The Memorial, which depicts a teenager staring out to sea with the Captain by his side taking a reading, honours the Islands’ seamen who were lost at sea.

14 ¢

Dividends

Approximately 29% of our registered shareholders are resident in the Cayman Islands. They receive quarterly dividends on their investment.

“For many years, Caymanian turtle rangers pursued hawksbill and green sea turtles from dugout canoes, which were small enough to be manoeuvred into shallow water where the turtles set their nets and retrieved trapped turtles. In 1904, Daniel Jervis, a turtling captain from Cayman Brac, designed and built a short, wide, planked boat that was more manoeuvrable than a canoe. Brackers say this vessel, the *Terror*, was the first Caymanian catboat, a small craft designed especially for turtling. *Terror* was 14 feet long with a beam of 44 inches and was equipped with both sails and oars, making it versatile and easily handled.”

[from the Cayman Islands Maritime Heritage Trail Sister Islands Guide]



22 ¢

Fuel & Oil

Our generators consumed 24.9 million gallons of diesel fuel and 187,000 gallons of lube oil this year to meet electrical demand.

“The navigation light at George Town harbour is marked with a tablet bearing the names of 153 Caymanians who died at sea, and was consecrated on June 22, 1980.”

[from Nor’wester Magazine, August 1980]

13 ¢

Duty to Government

Duty to Government on fuel and materials amounted to over US\$15.4 million.

“Iron wreckage protruding above the sea in South Sound is a piece of the Norwegian barque *Pallas*. Built in Scotland in 1875, she sailed in ballast from Buenos Aires bound for Mississippi via Barbados in 1910. Blown off course by a hurricane on 13 October, *Pallas* was swept onto the reef, where island residents helped save the lives of her crew.”

[from the Cayman Islands Maritime Heritage Trail Grand Cayman Guide]

12 ¢

Loans, Share Redemption & Loan Interest

US\$14.4 million was paid in interest and principal repayments on loans and preference shares.

“For 20 years the *Cimboco* was the Islands’ lifeline. The first locally-owned motorship, it gained the name from the company that owned her, the Cayman Islands Motor Boat Company, Ltd. It was a 120-tonne vessel built by Captain Royal Brazley Bodden at his boat yard off North Church Street. The launching in 1927 was one of the greatest days in the history of the Cayman Islands, accompanied by eating, drinking, music and dancing.”

[from Nor’wester Magazine, November 1972]

Information compliments of Cayman Islands National Archive

Auditors' Report to the Shareholders

of Caribbean Utilities Company, Ltd.



We have audited the balance sheets of Caribbean Utilities Company, Ltd. (the "Company") as at April 30, 2003 and April 30, 2002 and the statements of earnings, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2003 and April 30, 2002 and the results of its operations, the changes in its shareholders' equity and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers
Grand Cayman, Cayman Islands

July 24, 2003

Balance Sheet

As at April 30, 2003 (expressed in United States Dollars)

	Note	2003 \$	2002 \$
Assets			
<i>Current Assets</i>			
Cash and due from banks	6	13,129,770	4,920,607
Accounts receivable	2	7,659,158	6,769,856
Inventories		2,864,021	3,050,750
Prepayments		617,426	754,348
		<u>24,270,375</u>	<u>15,495,561</u>
<i>Long-term investments</i>	4	4,000,407	3,580,595
<i>Property, plant and equipment</i>	3	239,215,880	223,046,033
<i>Other assets</i>	5	6,640,658	3,778,385
Total Assets		<u>274,127,320</u>	<u>245,900,574</u>
Liabilities and Shareholders' Equity			
<i>Current Liabilities</i>			
Current portion of long-term debt	6	2,328,665	2,291,704
Current portion of redeemable preference shares	7	6,007,500	6,007,500
Accounts payable and accrued expenses		20,020,091	12,122,812
Consumers' deposits and advances for construction		3,079,182	2,807,386
Dividends declared		3,901,236	3,717,386
		<u>35,336,674</u>	<u>26,946,788</u>
<i>Long-term debt</i>	6	118,375,099	100,674,287
<i>Redeemable preference shares</i>	7	-	6,007,500
Total Liabilities		<u>153,711,773</u>	<u>133,628,575</u>
<i>Shareholders' Equity</i>			
Share capital	8	1,713,325	1,689,731
Share premium		51,340,889	63,411,196
Redetermination surplus		276,551	643,168
Retained earnings		67,084,782	46,527,904
Total Shareholders' Equity		<u>120,415,547</u>	<u>112,271,999</u>
Total Liabilities and Shareholders' Equity		<u>274,127,320</u>	<u>245,900,574</u>

Approved for issuance on behalf of Caribbean Utilities Company, Ltd.'s Board of Directors by:



Joseph A. Imparato
Director



Peter A. Thomson
Director

The accompanying Summary of accounting policies and Notes form an integral part of these Financial Statements.

Statement of Earnings

For the year ended April 30, 2003 (expressed in United States Dollars)

	Note	2003 \$	2002 \$
Operating Revenues			
Electricity sales		80,532,704	76,247,442
Fuel factor		16,388,315	13,876,646
<i>Total Operating Revenue</i>		<u>96,921,019</u>	<u>90,124,088</u>
Operating Expenses			
Power generation		44,475,091	41,867,068
General and administration		8,127,115	7,653,356
Consumer service and promotion		1,339,105	1,268,567
Distribution		1,584,841	1,764,986
Depreciation and amortisation		11,766,908	10,357,718
Maintenance		5,677,278	4,709,387
<i>Total Operating Expenses</i>		<u>72,970,338</u>	<u>67,621,082</u>
Operating Income		<u>23,950,681</u>	<u>22,503,006</u>
Other Income/(Expenses)			
Interest expense and preference dividends		(6,321,081)	(5,647,589)
Foreign exchange gain		1,483,810	1,189,427
Other income		1,076,851	1,230,204
<i>Total Net Other Expenses</i>		<u>(3,760,420)</u>	<u>(3,227,958)</u>
Earnings for the Year	10	<u>20,190,261</u>	<u>19,275,048</u>

The accompanying Summary of accounting policies and Notes form an integral part of these Financial Statements.

Statement of Changes in Shareholders' Equity

(Expressed in United States Dollars)

	Share Capital							Total Shareholders' Equity	
	Class A Ordinary Shares	9% Cumulative Participating Class B Preference Shares	Number of Shares	Amount \$	Number of Shares	Amount \$	Share Premium		Retained Earnings
Balance at April 30, 2001	23,983,542	1,427,592	250,000	250,000	250,000	76,799,018	26,899,911	996,113	106,372,634
Issue of Ordinary Shares (net) (Note 8)	203,943	12,139	-	-	-	2,109,720	-	-	2,121,859
Dividends	-	-	-	-	-	(15,497,542)	-	-	(15,497,542)
Earnings for the year	-	-	-	-	-	-	19,275,048	-	19,275,048
Transfer from Redetermination Surplus	-	-	-	-	-	-	352,945	(352,945)	-
Balance at April 30, 2002	24,187,485	1,439,731	250,000	250,000	250,000	63,411,196	46,527,904	643,168	112,271,999
Issue of Ordinary Shares (net) (Note 8)	396,375	23,594	-	-	-	4,264,481	-	-	4,288,075
Dividends	-	-	-	-	-	(16,334,788)	-	-	(16,334,788)
Earnings for the year	-	-	-	-	-	-	20,190,261	-	20,190,261
Transfer from Redetermination Surplus	-	-	-	-	-	-	366,617	(366,617)	-
Balance at April 30, 2003	24,583,860	1,463,325	250,000	250,000	250,000	51,340,889	67,084,782	276,551	120,415,547

The accompanying Summary of accounting policies and Notes form an integral part of these Financial Statements.

Statement of Cash Flows

For the year ended April 30, 2003 (expressed in United States Dollars)

	2003 \$	2002 \$
Operating Activities		
Earnings for the year	20,190,261	19,275,048
Item not affecting working capital:		
Depreciation and amortisation	11,766,908	10,357,718
Profit on disposal of fixed assets	(27,317)	(58,500)
	<u>31,929,852</u>	<u>29,574,266</u>
Net decrease/(increase) in non-cash working capital balances related to operations	4,461,640	(2,330,152)
<i>Cash flow provided by Operating Activities</i>	<u>36,391,492</u>	<u>27,244,114</u>
Financing Activities		
Proceeds from debt financing	35,000,000	30,000,000
Repayments of debt	(17,262,227)	(12,765,633)
Dividends paid	(16,150,937)	(15,250,292)
Redemption of preference shares	(5,932,800)	-
Net proceeds from issue of ordinary share capital	4,288,075	2,121,859
<i>Cash flow (used in)/provided by Financing Activities</i>	<u>(57,889)</u>	<u>4,105,934</u>
Investing Activities		
Net purchase of investments	(419,812)	(189,060)
Proceeds on sale of fixed assets	27,317	116,613
Purchase of property, plant and equipment	(27,731,945)	(29,095,469)
<i>Cash flow used in Investing Activities</i>	<u>(28,124,440)</u>	<u>(29,167,916)</u>
Increase in Net Cash	8,209,163	2,182,132
Net Cash - Beginning of Year	4,920,607	2,738,475
Net Cash - End of Year	<u>13,129,770</u>	<u>4,920,607</u>
Supplemental disclosure of cash flow information:		
Interest received during the year	26,327	101,051
Interest paid during the year	<u>7,736,910</u>	<u>6,332,225</u>

The accompanying Summary of accounting policies and Notes form an integral part of these Financial Statements.

Summary of Accounting Policies

For the year ended April 30, 2003 (expressed in United States Dollars)

The financial statements of Caribbean Utilities Company, Ltd. (the “Company”) have been prepared in accordance with Canadian Generally Accepted Accounting Principles. Principal accounting policies are as follows:

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Due from Banks

Cash and due from banks comprises cash on hand, bank demand deposits and bank fixed deposits maturing within three months.

Accounts Receivable

Accounts receivable are included in the balance sheet after making a provision for doubtful accounts.

Inventories

Fuel and lube oil are carried at cost. Line inventory is carried at cost less provision for obsolescence. Fuel, lube oil and line inventory are classified as inventory on the balance sheet. Engine spares are carried at cost less provision for obsolescence and are classified as generating equipment under property, plant and equipment on the balance sheet. Inventories are consumed/utilised on an average cost basis.

Property, Plant and Equipment

Property, plant and equipment is stated on the basis of an appraised valuation at November 30, 1984 with subsequent additions at cost.

The cost of additions to property, plant and equipment is the original cost of contracted services, direct labour and related overheads, materials, and interest on funds used during construction.

On certain construction projects, interest is capitalised and included as a cost in the appropriate capital assets account until the asset is available for service.

Depreciation is provided on cost or appraised value of fixed assets, except for freehold land which is not depreciated, on a straight-line basis over the estimated useful lives of the assets as follows:

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

Long-Term Investments

Long-term investments are stated at cost. When there has been a loss in value of investments that is other than a temporary decline, the investments will be written down to recognise the loss.

Other Assets

Other assets, excluding deferred fuel costs and debt issue expenses, are being amortised over 30 years on a straight-line basis commencing with the year ended April 30, 1976.

Fuel Factor and Deferred Fuel Costs

Pursuant to the terms of the Licence (Note 1), the Company is entitled to recover from consumers any increase in the cost of fuel over a set base cost price. These costs are recovered in the form of a surcharge on consumer billings, known as the “Fuel Factor”.

Costs incurred and not yet recovered from consumers pursuant to the Fuel Factor are deferred and offset against the related future revenues recovered from consumers. Movements in deferred fuel costs are recorded as movements in non-cash working capital balances in the Statement of Cash Flows.

Deferred Debt Issue Expenses

Deferred debt issue expenses are being amortised over the term of the debt on a straight-line basis from the dates of the relevant debt issue closings.

Summary of Accounting Policies

For the year ended April 30, 2003 (expressed in United States Dollars)

Redetermination Surplus

The redetermination surplus which arose primarily from a revaluation of property, plant and equipment in November 1984 is being credited to retained earnings over 20 years commencing with the year ended April 30, 1985.

Foreign Exchange

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

Effective May 1, 2002, the Company adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants (CICA) Standard #1650 on accounting for foreign exchange gains and losses which require the recognition of foreign exchange gains and losses on long-term debt directly into income. The recommendations, which were adopted as of May 1, 2002, were applied retroactively. The Company had no deferred foreign exchange gains and losses as of May 1, 2001 and, accordingly, there was no cumulative effect on retained earnings.

At April 30, 2003 the year-end rates of exchange used in the financial statements were:

Pounds Sterling to US Dollars:	US\$1.00 = STG 0.63 (2002: STG 0.69)
Euro to US Dollars:	US\$1.00 = Euro 0.89 (2002: Euro 1.11)

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

Operating Revenue

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis.

Other Income

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

Segmental Information

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

Fair Values

The fair value of financial assets and liabilities has been determined from market values where available, after taking into account transaction costs that would be incurred to exchange or settle the underlying financial instrument. Where financial instruments with an immediate or short-term maturity are considered to approximate to cost, this fact is disclosed. Fair value of financial assets and liabilities for which no market value is readily available is determined by the Company using predetermined future cash flows discounted at an estimated market rate. In establishing an estimated market rate, the Company has evaluated the existing transactions, as well as comparable industry and economic data and other relevant factors such as pending transactions or subsequent events.

Executive Stock Option Plan

Effective May 1, 2002, the Company adopted the new CICA Standard #3870, which establishes standards for recognition, measurement and disclosure of stock-based compensation. The Company accounts for its grants under such plans using the fair value method and the compensation expense is amortised over the vesting period of the options.

The Company is applying the standard prospectively commencing May 1, 2002, and prior years' comparatives will not be reflective of the new standard. There have been no options granted by the Company for the year (Note 9), and therefore no amount has been charged to stock compensation expense.

Dividends

Dividends are accrued when declared. In accordance with the Companies Law of the Cayman Islands, the Company may declare and pay dividends out of the share premium account provided that, immediately following the date on which the dividend is proposed to be paid, the Company is able to meet its debts as they fall due.

Employee Benefits Plan

The Company maintains defined benefit and defined contribution pension plans for its employees. The pension costs of the defined benefit plan are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. Past service costs from plan initiation are amortised on a straight-line basis over the remaining service period of the employee active at the date of initiation. Actuarial gains or losses are recognised in income in the year in which they occur. The cost of the defined contribution pension plan is expensed as incurred.

Notes to Financial Statements

For the year ended April 30, 2003 (expressed in United States Dollars)

1. Incorporation, Activity and Licence

The Company was incorporated on April 30, 1966 under the laws of the Cayman Islands. Fortis Energy-Bermuda Ltd. ("the Fortis group") owns 37.8% (2002: 21.6%) of the issued Class A Ordinary Shares of the Company, International Power Holdings Ltd. owns 15.2% (2002: nil%) and West Indies Power Corporation Limited ("WIPCO"), a company incorporated under the Laws of the Cayman Islands, owns nil% (2002: 31.4%).

The principal activity of the Company is to generate and distribute electricity in their exclusive licence area of Grand Cayman, Cayman Islands, under a licence from the Government of the Cayman Islands ("Government") originally dated May 10, 1966, amended November 1, 1979 and renewed for a further 25 years on January 17, 1986. Amendments to the 25-year licence ("the Licence") dated January 17, 1986, as amended by a Supplementary Licence dated October 16, 1989, have been negotiated and incorporated into a further Supplementary Licence executed on November 15, 1994.

There is a provision in the Licence for subscribers' tariffs to be adjusted each year to provide the Company with a rate of return of 15% on capital employed as defined in the Licence. The 15% rate of return is fixed for the term of the Licence and does not take into consideration actual interest charges, unless they are in excess of 15% per annum, and costs of capital incurred by the Company.

Within 21 days of the end of each financial year, the Company is obliged to furnish the Government with an Interim Return setting out the results of the operations for that financial year. Not later than three months after the end of such financial year the Company is under an obligation to submit to the Government audited accounts together either with a certificate by the auditors certifying that the particulars in the Interim Return accord with the audited accounts or alternatively, with a Final Return which does so accord with the audited accounts. Also submitted to the Government at this stage is a recommendation by the auditors as to what adjustments, if any, are necessary to the tariff rates by way of increases or decreases to give effect to the provision for the 15% rate of return.

Additionally, the Licence provides for adjustments to be made to the rates billed to consumers to reflect variations in the cost to the Company of diesel fuel used in the generation of electricity. Such adjustments are made on a monthly basis.

The Licence also requires the Company to pay duty on all foreign purchases at the rate of 10%, to pay duty on fuel at the rate of \$0.60 per imperial gallon and to pay a turnover fee of 5/8 of 1% based on the previous year's revenue, payable quarterly in arrears.

The Government has indicated a desire to enter into negotiations earlier than stipulated in the Licence. In July 2002, the Company entered into discussions with Government with a view to replacing the permitted rate of return on allowable assets formula, as stipulated under the current Licence, with an alternate mechanism by which the Company may implement electricity rate increases as and when needed. These discussions are ongoing and are in their early stages. The likely outcome of these discussions and the related impact on the Company's operations is not presently determinable.

2. Accounts Receivable

	2003	2002
	\$	\$
Billings to consumers	7,318,038	6,227,129
Due from Directors	3,214	23,896
Employee Share Purchase Plan	33,231	46,158
Due from WIPCO	-	17,158
Other receivables	304,675	455,515
	7,659,158	6,769,856

Employee Share Purchase Plan

The Company provides interest free advances to employees to purchase Class A Ordinary Shares, with such advances recovered through payroll deductions over the next 12 months. The maximum semi-annual participation is 1,000 Class A Ordinary Shares per employee.

Notes to Financial Statements

For the year ended April 30, 2003 (expressed in United States Dollars)

3. Property, Plant and Equipment

	Cost /Appraised Value \$	Accumulated Depreciation \$	2003 Net \$	Cost/Appraised Value \$	Accumulated Depreciation \$	2002 Net \$
Transmission & Distribution	135,079,896	32,478,554	102,601,342	115,063,001	28,483,158	86,579,843
Generation	160,745,888	46,855,306	113,890,582	155,753,151	41,078,288	114,674,863
Other:						
Land	1,170,193	-	1,170,193	1,170,193	-	1,170,193
Buildings	16,880,678	3,795,962	13,084,716	16,778,842	3,306,052	13,472,790
Equipment, motor vehicles and computers	17,176,073	8,707,026	8,469,047	14,757,408	7,609,064	7,148,344
Total Other	35,226,944	12,502,988	22,723,956	32,706,443	10,915,116	21,791,327
Property, plant and equipment	331,052,728	91,836,848	239,215,880	303,522,595	80,476,562	223,046,033

Included in property, plant and equipment are a number of capital projects in progress with a total cost to date of \$29,879,063 (2002: \$34,069,473). These projects relate primarily to the North Sound Plant 69 kV Substation, the third MAN B&W 12.25 MW diesel generating unit, the "Completion of Loops" project as well as several other transmission and distribution projects.

Also included in generation and transmission and distribution, is freehold land with a cost of \$4,175,013 (2002: \$4,175,013).

In addition, engine spares with a net book value of \$8,430,333 (2002: \$7,669,224) are included in generation.

During the year, the Company capitalised interest of \$1,891,256 (2002: \$2,409,183).

Fixed assets pledged as security are detailed in Note 6.

4. Long-term Investments

Long-term investments are largely comprised of money market funds, bonds, and U.S. Government mortgage and asset backed securities with a cost and market value of \$4,000,407 (2002: \$3,580,595).

During the year ended April 30, 2002, the Company changed its investment strategy from buy-and-hold to trading, and accordingly recognised these investments as short-term rather than long-term. However, at the end of the year ended April 30, 2002, the Company re-evaluated this change and reverted to a buy-and-hold basis. As at April 30, 2002, these investments were re-classified to long-term at the prevailing market value of \$3,580,595.

5. Other Assets

	2003 \$	2002 \$
Other assets	719,773	182,388
Deferred debt issue expense	1,626,532	1,386,228
Deferred fuel costs	4,294,353	2,209,769
	<u>6,640,658</u>	<u>3,778,385</u>

Notes to Financial Statements

For the year ended April 30, 2003 (expressed in United States Dollars)

6. Long-Term Debt

	2003	2002
	\$	\$
8.47% Senior Unsecured Loan Notes due 2010	12,000,000	13,500,000
6.47% Senior Unsecured Loan Notes due 2013	25,000,000	25,000,000
7.64% Senior Unsecured Loan Notes due 2014	30,000,000	30,000,000
6.67% Senior Unsecured Loan Notes due 2016	30,000,000	30,000,000
5.09% Senior Unsecured Loan Notes due 2018	20,000,000	-
6.20% European Investment Bank #2 due 2005	758,593	1,079,145
3.00% European Investment Bank #3 due 2009	2,945,171	3,386,846
	<hr/>	<hr/>
	120,703,764	102,965,991
Less: Current portion	2,328,665	2,291,704
	<hr/>	<hr/>
	118,375,099	100,674,287

Long-term debt repayments per fiscal year are estimated as follows:	Year	\$
	2004	2,328,665
	2005	4,854,102
	2006	7,482,822
	2007	7,497,632
	2008	10,512,343
	2009 and later	88,028,200
		<hr/>
		120,703,764

All long-term debt is denominated in United States dollars with the following exceptions:

	Currency Denominated in	US\$Equivalent
European Investment Bank	Euro	106,850
European Investment Bank	Sterling	92,335

The Company has credit financing facilities with Royal Bank of Canada ("RBC") comprising:

1. \$5,000,000 Revolving overdraft line
2. \$1,000,000 Term Loan
3. \$1,500,000 Stand-by Term Loan
4. \$3,800,000 Stand-by Letters of Credit
5. \$10,000,000 demand loan facility for interim funding of expenditures

Pursuant to the above facility agreements, RBC agreed to grant letters of credit in favour of European Investment Bank ("EIB") up to the sum of US\$3.8 million (2002: \$4.5 million) (or the equivalent in other acceptable currencies) to secure the obligations of the Company to EIB in respect of finance contracts (dated April 18, 1990 and January 14, 1997) in the same aggregate amount.

As security for the above facilities, RBC has been granted fixed and floating charge debentures totalling \$3.8 million (2002: \$4.5 million) over all assets of the Company (other than land on which the office building is situated). The RBC debentures represent a first charge over the Company's assets.

During the year, the Company entered into a private placement agreement with unrelated third parties under which the Company authorised the sale of \$40,000,000 5.09% Senior Unsecured Loan Notes due June 1, 2018. The Notes are scheduled to be issued in two \$20 million tranches on April 23, 2003 and June 3, 2003 respectively.

(6. Long-Term Debt continued on page 31)

Notes to Financial Statements

For the year ended April 30, 2003 (expressed in United States Dollars)

6. Long-Term Debt (continued)

Pursuant to a finance contract with EIB dated January 14, 1997 for an aggregate maximum facility of an amount equivalent to 4,000,000 European Currency Units ("ECU's"), the Company pays a subsidised interest at the greater of 3% or the average prevailing rate of comparable loans at the time of drawdown less 3.25%. Under the agreement, notional interest equal to the subsidy is paid into a restricted use funding account held by the Company. These funds can only be used for certain projects mitigating the effect of the Company's activities on the environment. Disbursement of the funds is subject to the prior approval of EIB. As at April 30, 2003, included within cash and due from banks, is an amount totalling \$97,971 (2002: \$774) which represents the Company's contribution into the restricted account.

7. Redeemable Preference Shares

	2003	2002
	\$	\$
Authorised:		
419,666 (2002: 419,666) Class C Preference Shares of \$1.00 each (non-voting)		
Issued and fully paid:		
60,075 (2002: 120,150) 8.0% Cumulative, Redeemable Class C Series 2 Preference Shares (US\$1.00 par value plus US\$99.00 premium)	6,007,500	12,015,000
	<hr/>	<hr/>
	6,007,500	12,015,000
Less: Current portion	6,007,500	6,007,500
	<hr/>	<hr/>
	-	6,007,500
	<hr/>	<hr/>

The 8% Cumulative Redeemable Class C Series 2 Preference Shares are redeemable at the issue price of \$100.00 on June 20, 2003.

8. Share Capital

	2003	2002
	\$	\$
Authorised:		
60,000,000 (2002: 60,000,000) Class A Ordinary Shares of CI\$0.05 each		
250,000 (2002: 250,000) 9% Cumulative, Participating Class B Preference Shares of \$1.00 each (non-voting)		
1 Cumulative, Participating, Class D Preference Share of CI\$0.56 (non-voting)		
Issued and fully paid:		
24,583,860 (2002: 24,187,485) Class A Ordinary Shares	1,463,325	1,439,731
250,000 (2002: 250,000) 9% Cumulative, Participating Class B Preference Shares (\$1.00 par value) issued at a premium of \$19.00 per share	250,000	250,000
	<hr/>	<hr/>
	1,713,325	1,689,731
	<hr/>	<hr/>

At the sole option of the Directors, the Company is entitled to redeem all or any of the 9% Cumulative, Participating Class B Preference Shares at any time upon receipt by the Company of an application to redeem such shares.

Share capital movements for the year are summarised as follows:

- 1) 98,450 (2002: 92,643) Class A Ordinary Shares were issued under the Customer Share Purchase and Dividend Reinvestment Plans at between \$11.49 and \$12.26 (2002: \$12.04 and \$12.49) per share.

(8. Share Capital continued on page 32)

Notes to Financial Statements



For the year ended April 30, 2003 (expressed in United States Dollars)

8. Share Capital (continued)

- 2) 15,525 (2002: 19,500) Class A Ordinary Shares were issued under the Employee Share Purchase Plan at prices between \$11.85 and \$12.31 (2002: \$10.05 and \$12.04) per share.
- 3) 282,400 (2002: 91,800) Class A Ordinary Shares were issued under the Executive Stock Option Plan (Note 9) at between \$10.05 and \$11.46 (2002: \$6.02 and \$11.00) per share.

9. Share Options

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

The exercise price per share in respect of options is equal to the fair market value of the Class A Ordinary Shares on the date of grant. Each option is for a term not exceeding ten years, and will become exercisable on a cumulative basis at the end of each year following the date of grant. The maximum number of Class A Ordinary Shares under option shall be fixed and approved by the shareholders of the Company from time to time and is currently set at 1,348,925. Options are forfeited if they are not exercised prior to their respective expiry date or upon termination of employment prior to the completion of the vesting period.

	Number of options	2003 Weighted average exercise price per share \$	Number of options	2002 Weighted average exercise price per share \$
Outstanding at beginning of year	1,235,200	10.81	812,000	10.16
Granted	-	-	515,000	11.46
Exercised	(282,400)	10.75	(91,800)	8.74
Forfeited	(4,000)	10.05	-	-
Outstanding at end of year	948,800	10.83	1,235,200	10.81

The following table summarises the information about stock options outstanding at April 30, 2003:

Range of Exercise Prices \$	Options Outstanding			Options Exercisable	
	Number outstanding at April 30, 2003	Weighted average remaining contractual life	Weighted average Exercise Price \$	Number exercisable at April 30, 2003	Weighted average Exercise Price \$
10.05 - 11.46	948,800	5.14 years	10.83	415,655	10.78

Notes to Financial Statements

For the year ended April 30, 2003 (expressed in United States Dollars)

10. Earnings Per Class A Ordinary Share

Basic earnings per Class A Ordinary Share are calculated using the weighted daily average number of Class A Ordinary Shares in issue and after adjustment for the dividends on Class B Preference Shares.

	2003	2002
Earnings for the year	\$ 20,190,261	19,275,048
Less: Preferred dividends	\$ (880,000)	(825,000)
Earnings for the year for basic and diluted earnings per share	<u>\$ 19,310,261</u>	<u>18,450,048</u>
Weighted average number of Class A Ordinary Shares	24,284,916	24,086,162
Plus: Potential dilutive effect of unexercised options	109,441	142,948
Weighted average number of Class A Ordinary Shares used for determining diluted earnings per share	<u>24,394,357</u>	<u>24,229,110</u>
Basic earnings per Class A Ordinary Share	\$ 0.80	0.77
Diluted earnings per Class A Ordinary Share	<u>\$ 0.79</u>	<u>0.76</u>

Diluted earnings per Class A Ordinary Share shows the effect on earnings per Class A Ordinary Share which would result if all dilutive stock options outstanding for the year ended April 30, 2003 had been exercised at the beginning of the year. The dilutive effect of stock options was calculated using the treasury stock method. This method calculates the number of incremental shares by assuming the outstanding stock options are (i) exercised and (ii) then reduced by the number of shares assumed to be repurchased from the issuance proceeds, using the average market price of common shares for the year.

11. Directors' and Officers' Remuneration

During the year ended April 30, 2003, the Company had a total of 12 (2002: 14) executive officers of whom 6 (2002: 6) were also Directors. For the financial year of the Company ended April 30, 2003, the aggregate cash compensation paid to such executive officers for services during such year was \$1,977,137 (2002: \$2,141,183).

12. Capital Commitments

The Company has signed a seven-year Strategic Alliance with ABB Power T&D Company, Inc. ("ABB") for major transmission and distribution (T&D) system projects, which commenced in September 1998. As part of the Strategic Alliance with ABB, the Company has signed various contracts with capital commitments of \$3.5 million including the design and construction of the Frank Sound Phase II project. The Company also signed a 10-year agreement with MAN B&W for generation projects that commenced in February 1999. The total commitments outstanding are \$1.0 million.

13. Insurance Coverage

As discussed in Note 1, the Company operates in the Caribbean which is susceptible to certain adverse weather conditions such as hurricanes. The Company maintains business interruption, machinery breakdown and property insurance (for the estimated replacement cost of buildings and generating plant) with major international insurers.

(13. Insurance Coverage continued on page 34)

Notes to Financial Statements

For the year ended April 30, 2003 (expressed in United States Dollars)

13. Insurance Coverage (continued)

Included in plant and equipment are certain transmission and distribution assets with an estimated replacement cost of \$78 million (2002: \$68 million). This value excludes substations which are covered in the main property policies. The Company was not able to obtain insurance coverage for these assets. However it maintains a standby line of credit (Note 6) and a further \$4,000,407 (2002: \$3,580,595) in investments (Note 4) to cover uninsured losses.

14. Pension Plan

All employees of the Company are members of a defined contribution Pension Plan established for the exclusive benefit of employees of the Company and which complies with the provisions of the National Pensions Law (the "Law"). As a term of employment, the Company contributes 7.5% of wages or salary in respect of employees that have completed 15 years of continuous service and have attained the age of 55 years and 5% of wages or salary for all other employees. All contributions, income and expenses of the plan are accrued to, and deducted from, the members' accounts. The total expense recorded in respect of employer contributions to the plan for the year amounted to \$732,386 (2002: \$712,039). The Pension Plan is administered by an independent Trustee.

During the last fiscal quarter, the Company established a defined benefit plan for a Director of the Company. The accrued benefit obligation as at April 30, 2003 amounted to \$1,049,773 which relates to past service costs calculated at inception of the plan. The unamortised past service costs of \$1,049,773 will be amortised on a straight-line basis over the individual's remaining service period with the Company which as at April 30, 2003 was 30 months. There were no plan assets at April 30, 2003. The discount rate used in calculating the accrued benefit obligation as at April 30, 2003 was 6.75%.

15. Concentration of Credit Risk

The Company does not believe it is subject to any significant concentration of credit risk. Cash balances are largely in place with major financial institutions. Long-term investments are predominantly in United States government backed securities and major corporations and all positions are held by one major financial institution as custodian on behalf of the Company. Accounts receivable are largely derived from sales of electricity supplied to consumers throughout Grand Cayman. In addition, the Company holds consumer deposits of \$2,820,491 (2002: \$2,794,098) by way of security.

16. Fair Value of Financial Assets and Liabilities

The carrying amounts reported in the balance sheets at April 30, 2003 and 2002 for cash, accounts receivable and accounts payable approximate fair values due to the immediate or short-term maturities of these financial instruments.

The fair value of the redeemable preference shares is approximately \$6.0 million (2002: \$11.9 million).

The fair value of the long-term debt is approximately \$133.8 million (2002: \$104.9 million).

17. Taxation

Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company.

The Company is levied customs duties of \$0.60 per imperial gallon of diesel fuel it imports. In addition, the Company pays customs duties of 10% on all other imports.

Notes to Financial Statements

For the year ended April 30, 2003 (expressed in United States Dollars)

18. Subsequent Events

On May 19, 2003, the Company submitted their Interim Return containing their 2003 unaudited results indicating that, subject to the final audit, the Company would be entitled to a 3% rate increase effective August 1, 2003.

In June 2003, the second tranche of the \$40 million Senior Unsecured Loan Notes (Note 6), was issued for proceeds of \$20 million.

Finally, 60,075 8% Cumulative Redeemable Class C, Series 2 Preference Shares were redeemed on June 20, 2003 at the issue price of \$100 per share plus interest accrued at that date.

19. Comparative Figures

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

Ten-Year Summary

Except where noted, expressed in United States Dollars, thousands

	2003	2002
Operating revenues	96,921	90,124
Other revenues and adjustments	2,560	2,420
Total revenues	<u>99,481</u>	<u>92,544</u>
Operating expenses	<u>72,970</u>	<u>67,621</u>
Income before interest	26,511	24,923
Interest expense and preference dividends	6,321	5,648
Earnings for the year	<u>20,190</u>	<u>19,275</u>

Capitalisation:

Class A Ordinary Shares (nominal value)	1,463	1,440
9% Cumulative Participating Class B Preference Shares (nominal value)	250	250
Share Premium	51,341	63,411
8% Cumulative Fixed Term Class C, Series 2 Preference Shares (\$100 each)	6,008	12,015
8.5% Cumulative Redeemable Class C, Series 1 Preference Shares (\$100 each)	-	-
Long-term loans	<u>120,704</u>	<u>102,966</u>
Total capitalisation	<u>179,766</u>	<u>180,082</u>
Capital expenditures	27,732	29,095
Earnings per Class A Ordinary Share (\$/Share)	0.80	0.77
Dividends per Class A Ordinary Share (\$/Share)	0.64	0.61
Book value per Class A Ordinary Share	4.69	4.44

Statistical Record:

Net KWH generation (millions of kWh)	463.00	448.10
Net KWH sales (millions of kWh)	429.28	414.58
Peak load (MW) gross	77.06	75.99
Plant capacity (MW)	115.10	115.10
Total customers (actual number)	20,269	19,598

2001	2000	1999	1998	1997	1996	1995	1994
90,089	76,469	67,058	66,478	61,047	55,741	50,850	48,226
2,133	2,705	1,870	1,784	1,688	1,457	1,112	1,676
92,222	79,174	68,928	68,262	62,735	57,198	51,962	49,902
69,179	58,104	50,802	51,776	49,759	44,998	40,693	38,602
23,043	21,070	18,126	16,486	12,976	12,200	11,269	11,300
3,737	3,079	3,704	3,616	2,666	2,557	2,738	3,527
19,306	17,991	14,422	12,870	10,310	9,643	8,531	7,773
1,428	1,412	1,380	1,307	1,294	1,191	1,169	1,154
250	250	250	250	250	250	250	250
76,799	88,806	51,216	38,892	37,040	29,896	28,693	28,101
12,015	12,015	12,015	12,015	12,015	-	-	-
-	-	2,000	5,000	8,000	10,000	10,000	10,000
85,732	76,442	49,933	26,263	26,263	29,524	16,882	19,054
176,224	178,925	116,794	83,727	84,862	70,861	56,994	58,468
35,655	43,642	34,131	19,868	19,949	13,486	9,297	1,463
0.78	0.73	0.63	0.57	0.46	0.46	0.41	0.43
0.56	0.47	0.41	0.36	0.33	0.30	0.27	0.24
4.23	3.97	3.70	3.14	2.88	2.60	2.49	2.33
424.71	398.09	376.28	347.52	311.00	292.50	276.99	261.24
393.28	369.42	346.94	326.46	287.29	273.50	254.58	238.20
70.18	65.76	61.11	56.33	50.74	47.38	44.60	42.80
115.10	94.92	94.92	88.37	72.64	71.41	71.29	71.29
19,198	18,463	17,349	16,353	15,482	14,768	14,118	13,741

Directors of the Company

Philip A. Barnes ^

Director & Chief Financial Officer
TransOcean Bank & Trust, Ltd.
Grand Cayman

Frank J. Crothers *

Vice-Chairman
Bahamas

Bruce D.C. Drake *

Retired Executive
Grand Cayman

Lewis M. Ebanks ^

Director of Finance/Co-owner
Auric Investments
Grand Cayman

J.F. Richard Hew

Executive Vice-President & Chief Operating Officer
Caribbean Utilities Company, Ltd.
Grand Cayman

Joseph A. Imparato *

Chairman
Caribbean Utilities Company, Ltd.
Grand Cayman

Robert D. Imparato

Company Secretary
Caribbean Utilities Company, Ltd.
Grand Cayman

Raul Nicholson-Coe ^

Managing Director
RNC Consulting Ltd.
Grand Cayman

H. Stanley Marshall +

President & Chief Executive Officer
Fortis Inc.
St. John's, Newfoundland
Canada

David E. Ritch, O.B.E., J.P. +

Attorney-at-Law
Ritch & Conolly
Grand Cayman

Karl W. Smith

Vice-President Finance & Chief Executive Officer
Fortis Inc.
St. John's, Newfoundland
Canada

Peter A. Thomson +

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

W. Warren Conolly, O.B.E., J.P. °

Retired Attorney-at-Law
Grand Cayman

Peter N. Thomson °

Retired Executive
Bahamas

* Member Audit Committee + Member Nominating and Corporate Governance Committee ^ Government Director ° Director Emeritus

Note: Ian L. Boxall resigned from the Board of Directors effective May 31, 2003.

Officers of the Company

Joseph A. Imparato
Chairman

Peter A. Thomson
President & Chief Executive Officer

Frank J. Crothers
Vice-Chairman

J.F. Richard Hew
Executive Vice-President & Chief Operating Officer

Eddinton M. Powell
Vice-President Finance & Chief Financial Officer

Deborah E. Bergstrom
Vice-President Customer & Corporate Services

William J.N. Forsythe
Vice-President & Chief Information Officer

Robert D. Imparato
Company Secretary

Robert L. Smith
Vice-President Production & Engineering

J. Lee Tinney
Vice-President Transmission & Distribution

Note: Ian L. Boxall resigned as General Counsel effective May 31, 2003.

Shareholder and Corporate Information



Shareholders

Registered shareholders as of April 30, 2003 were as follows:

Class of Shares	Shareholders	Shares Held
Class A Ordinary Shares	1,711	24,583,860
9% Class B, Preference Shares	127	250,000
8% Class C, Series 2 Preference Shares	16	60,075

1,367 Class A Ordinary registered shareholders holding approximately 29% of the outstanding shares are resident in the Cayman Islands, while the balance are resident overseas. Holders of Preference Shares are primarily resident in the Cayman Islands. Fortis Energy (Bermuda) Ltd., a wholly owned subsidiary of Fortis Inc., holds 9,301,395 Class A Ordinary Shares, or 37.8% of the outstanding shares.

Annual General and Special Meeting

Shareholders of Caribbean Utilities Company, Ltd. are invited to attend the Annual General and Special Meeting of the Company to be held Friday, October 24, 2003 at noon at the Marriott Beach Resort on West Bay Road, Grand Cayman. If you are unable to attend, please complete and return the form of proxy in accordance with the instructions set out in the accompanying meeting materials.

Dividends

Class A Ordinary Shares:

Quarterly dividends are customarily paid during the first week of March, June, September and December. Record dates are normally three weeks prior to payable dates.

Class B Preference Shares:

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

Dividend Reinvestment Plan

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

Customer Share Purchase Plan

The Customer Share Purchase Plan (CSPP) was launched in January 1995 and provides an opportunity for customers resident in Grand Cayman to invest in the Company. Customers may make cash payments of not less than CI\$25 (US\$30) per purchase and up to a total of CI\$12,000 (US\$14,400) per calendar year for the purchase of Class A Ordinary Shares.

Quarterly cash dividends paid on the shares are reinvested in additional Class A Ordinary Shares under the CSPP. Full details of the Plan may be obtained from CUC's Customer Service Department.

Solicitors

Hunter & Hunter
P.O. Box 190 GT
Grand Cayman

Auditors

PricewaterhouseCoopers
P.O. Box 258 GT
Grand Cayman

Principal Banker

Royal Bank of Canada
P.O. Box 245 GT
Grand Cayman

Duplicate Annual Reports

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

Registrar and Transfer Agents

CIBC Mellon Trust Company
P.O. Box 7010 Adelaide Street Postal Station
Toronto, Ontario, Canada M5C 2W9
Telephone: (416) 813-4600
Answerline™: (416) 643-5500 or 1-800-387-0825
(Toll free throughout North America)
Fax: (416) 643-5501
Website: www.cibcmellon.ca
(Acting as principal agent)

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

The Toronto Stock Exchange Listing

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

Registered Office

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

Joseph A. Imparato



CUC's Board of Directors, management and employees pay special tribute to Joseph A. Imparato, who will retire as Chairman following the Annual General and Special Meeting scheduled for October 24, 2003.

Mr. Imparato joined the Board of Directors in 1982 and became Chairman in 1986. He joined CUC during challenging and difficult times and, with Peter A. Thomson, President & Chief Executive Officer, guided the Company as it went public on The Toronto Stock Exchange in 1990 and experienced high net generation growth throughout the 1990s. He has also served as Chairman of the Audit Committee and Remuneration Committee of the Board of Directors.

We are pleased that Mr. Imparato will remain on the Board of Directors following his retirement, and CUC is grateful for his dedication and service to the Company.

