

**CARIBBEAN UTILITIES COMPANY, LTD.**

**FINANCIAL STATEMENTS**

**APRIL 30, 2003**

**CARIBBEAN UTILITIES COMPANY, LTD.**

**FINANCIAL STATEMENTS**

**APRIL 30, 2003**

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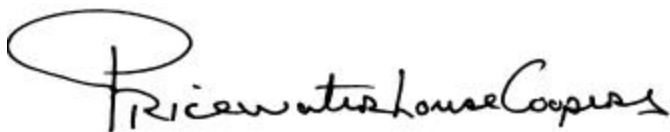
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**AUDITORS' REPORT TO THE SHAREHOLDERS OF**  
**CARIBBEAN UTILITIES COMPANY, LTD.**

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.



July 24, 2003

**CARIBBEAN UTILITIES COMPANY, LTD.**

**BALANCE SHEETS**

(Expressed in United States dollars)

	<u>2003</u>	<u>April 30,</u> <u>2002</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and due from banks (Note 6)	\$ 13,129,770	\$ 4,920,607
Accounts receivable (Note 2)	7,659,158	6,769,856
Inventories	2,864,021	3,050,750
Prepayments	<u>617,426</u>	<u>754,348</u>
	24,270,375	15,495,561
Long term investments (Note 4)	4,000,407	3,580,595
Property, plant and equipment (Note 3)	239,215,880	223,046,033
Other assets (Note 5)	<u>6,640,658</u>	<u>3,778,385</u>
Total Assets	<u>\$274,127,320</u>	<u>\$245,900,574</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Current portion of long term debt (Note 6)	2,328,665	2,291,704
Current portion of redeemable preference shares (Note 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	<u>3,901,236</u>	<u>3,717,386</u>
	35,336,674	26,946,788
Long term debt (Note 6)	118,375,099	100,674,287
Redeemable preference shares (Note 7)	<u>-</u>	<u>6,007,500</u>
Total Liabilities	<u>153,711,773</u>	<u>133,628,575</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	1,713,325	1,689,731
Share premium	51,340,889	63,411,196
Redetermination surplus	276,551	643,168
Retained earnings	<u>67,084,782</u>	<u>46,527,904</u>
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:

Peter A. Thomson  
..... ) Directors

Joseph A. Imperato  
..... ) Directors

July 24, 2003  
..... ) Date

The accompanying notes are an integral part of these financial statements.

**CARIBBEAN UTILITIES COMPANY, LTD.**

**STATEMENTS OF EARNINGS**

(Expressed in United States dollars)

	Year ended	
	<u>April 30,</u>	
	<u>2003</u>	<u>2002</u>
<b>Operating revenues</b>		
Electricity sales	\$ 80,532,704	\$ 76,247,442
Fuel factor	<u>16,388,315</u>	<u>13,876,646</u>
Total operating revenue	<u>96,921,019</u>	<u>90,124,088</u>
<b>Operating expenses</b>		
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 amortization	11,766,908	10,357,718
Maintenance	<u>5,677,278</u>	<u>4,709,387</u>
Total operating expenses	<u>72,970,338</u>	<u>67,621,082</u>
<b>Operating income</b>	<u>23,950,681</u>	<u>22,503,006</u>
<b>Other income/(expenses)</b>		
Interest expense and preference dividends	( 6,321,081)	( 5,647,589)
Foreign exchange gain	1,483,810	1,189,427
Other income	<u>1,076,851</u>	<u>1,230,204</u>
Total net other expenses	<u>( 3,760,420)</u>	<u>( 3,227,958)</u>
Earnings for the year (Note 10)	<u>\$ 20,190,261</u>	<u>\$ 19,275,048</u>

The accompanying notes are an integral part of these financial statements.

**CARIBBEAN UTILITIES COMPANY, LTD.**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Expressed in United States dollars)

	<b><u>Share Capital</u></b>							
	Class A		9% Cumulative		Share	Retained	Redetermination	Total
	<u>Ordinary Shares</u>		<u>Participating Class</u>					
	<u>No. of Shares</u>	<u>Amount</u>	<u>No. of Shares</u>	<u>Amount</u>	<u>Premium</u>	<u>Earnings</u>	<u>Surplus</u>	<u>Shareholders' Equity</u>
Balance at April 30, 2001	23,983,542	1,427,592	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	-	-	-	-	-	<u>352,945</u>	<u>( 352,945)</u>	-
Balance at April 30, 2002	24,187,485	1,439,731	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	-	-	-	-	-	<u>366,617</u>	<u>( 366,617)</u>	-
Balance at April 30, 2003	<u>24,583,860</u>	<u>\$ 1,463,325</u>	<u>250,000</u>	<u>\$ 250,000</u>	<u>\$ 51,340,889</u>	<u>\$ 67,084,782</u>	<u>\$ 276,551</u>	<u>\$ 120,415,547</u>

The accompanying notes are an integral part of these financial statements.

**CARIBBEAN UTILITIES COMPANY, LTD.**

**STATEMENTS OF CASH FLOWS**

(Expressed in United States dollars)

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

**CARIBBEAN UTILITIES COMPANY, LTD.**

**SUMMARY OF ACCOUNTING POLICIES**

**APRIL 30, 2003**

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 3 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 capitalized 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 - 50
Generation	20 - 50
Other: Buildings	20 - 50
Motor vehicles	5 - 15
Equipment and computers	3 - 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 recognize the loss.

**Other assets:** Other assets, excluding deferred fuel costs and debt issue expenses, are being amortized over thirty 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.

**CARIBBEAN UTILITIES COMPANY, LTD.**

**SUMMARY OF ACCOUNTING POLICIES**

**APRIL 30, 2003**

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

**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 twenty 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 CISO.84: 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 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 amortized 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.

**CARIBBEAN UTILITIES COMPANY, LTD.**

**SUMMARY OF ACCOUNTING POLICIES**

**APRIL 30, 2003**

**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 Benefit Plans:** 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 amortized on a straight-line basis over the remaining service period of the employee active at the date of initiation. Actuarial gains or losses are recognized in income in the year in which they occur. The cost of the defined contribution pension plan is expensed as incurred.

**CARIBBEAN UTILITIES COMPANY, LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**APRIL 30, 2003**

**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% (2002: 21.6%) of the issued Class A Ordinary Shares of the Company, International Power Holding 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 twenty-five years on January 17, 1986. Amendments to the twenty-five 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.

**CARIBBEAN UTILITIES COMPANY, LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**APRIL 30, 2003**

**2. Accounts receivable**

	<u>2003</u>	<u>2002</u>
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	<u>304,675</u>	<u>455,515</u>
	<u>\$ 7,659,158</u>	<u>\$ 6,769,856</u>

**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.

**3. Property, plant and equipment**

	<u>Cost/Appraised Value</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
<b>As at April 30, 2003:</b>			
Transmission and distribution	<u>\$135,079,896</u>	<u>\$ 32,478,554</u>	<u>\$ 102,601,342</u>
Generation	<u>160,745,888</u>	<u>46,855,306</u>	<u>113,890,582</u>
Other:			
Land	1,170,193	-	1,170,193
Buildings	16,880,678	3,795,962	13,084,716
Equipment, motor vehicles and computers	<u>17,176,073</u>	<u>8,707,026</u>	<u>8,469,047</u>
Total other	<u>35,226,944</u>	<u>12,502,988</u>	<u>22,723,956</u>
Property, plant and equipment	<u>\$331,052,728</u>	<u>\$ 91,836,848</u>	<u>\$ 239,215,880</u>
<b>As at April 30, 2002:</b>			
Transmission and distribution	<u>\$115,063,001</u>	<u>\$ 28,483,158</u>	<u>\$ 86,579,843</u>
Generation	<u>155,753,151</u>	<u>41,078,288</u>	<u>114,674,863</u>
Other:			
Land	1,170,193	-	1,170,193
Buildings	16,778,842	3,306,052	13,472,790
Equipment, motor vehicles and computers	<u>14,757,408</u>	<u>7,609,064</u>	<u>7,148,344</u>
Total other	<u>32,706,443</u>	<u>10,915,116</u>	<u>21,791,327</u>
Property, plant and equipment	<u>\$303,522,595</u>	<u>\$ 80,476,562</u>	<u>\$ 223,046,033</u>

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 69kv 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.

**CARIBBEAN UTILITIES COMPANY, LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**APRIL 30, 2003**

**3. Property, plant and equipment (continued)**

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 capitalized 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 US 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**

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

**6. Long term debt**

	<u>2003</u>	<u>2002</u>
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	<u>2,945,171</u>	<u>3,386,846</u>
	120,703,764	102,965,991
Less: Current portion	<u>2,328,665</u>	<u>2,291,704</u>
	<u>\$ 118,375,099</u>	<u>\$ 100,674,287</u>

**CARIBBEAN UTILITIES COMPANY, LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**APRIL 30, 2003**

**6. Long term debt (continued)**

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

2004	2,328,665
2005	4,854,102
2006	7,482,822
2007	7,497,632
2008	10,512,343
2009 and later	<u>88,028,200</u>
	<u>\$ 120,703,764</u>

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

	<u>Currency</u> <u>Denominated in</u>	<u>US\$ Equivalent</u>
European Investment Bank	EURO	106,850
European Investment Bank	STG	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 Standby Term Loan
4. \$3,800,000 Standby 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 favor 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 totaling \$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 authorized 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.

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 subsidized 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 totaling \$97,971 (2002: \$774) which represents the Company's contribution into the restricted account.

**CARIBBEAN UTILITIES COMPANY, LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**APRIL 30, 2003**

**7. Redeemable preference shares**

	<u>2003</u>	<u>2002</u>
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)	\$ <u>6,007,500</u>	\$ <u>12,015,000</u>
Less: current portion	<u>6,007,500</u>	<u>12,015,000</u> <u>6,007,500</u>
	\$ <u>                  -</u>	\$ <u>6,007,500</u>

The 8% Cumulative Redeemable Class C Series 2 Preference Shares are redeemable at the issue price of \$100 on June 20, 2003.

**8. Share capital**

	<u>2003</u>	<u>2002</u>
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	<u>250,000</u>	<u>250,000</u>
	\$ <u>1,713,325</u>	\$ <u>1,689,731</u>

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.
- 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.

**CARIBBEAN UTILITIES COMPANY, LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**APRIL 30, 2003**

**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.

	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	<u>Number of options</u>	<u>Weighted average exercise price per share</u>	<u>Number of of options</u>	<u>Weighted average exercise price per share</u>
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	<u>948,800</u>	<u>10.83</u>	<u>1,235,200</u>	<u>\$ 10.81</u>

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

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

**CARIBBEAN UTILITIES COMPANY, LTD.**

**NOTES TO FINANCIAL STATEMENTS**

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**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.

	<u>2003</u>	<u>2002</u>
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	<u>109,441</u>	<u>142,948</u>
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	<u>\$ 0.80</u>	<u>\$ 0.77</u>
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 7-year Strategic Alliance with ABB Power T&D Company, Inc. ("ABB") for major Transmission and Distribution System (T&D) 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.

**CARIBBEAN UTILITIES COMPANY, LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**APRIL 30, 2003**

**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.

Included in plant and equipment are certain transmission and distribution assets with an estimated replacement cost of \$78 million (2002: \$68million). 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 fifteen years of continuous service and have attained the age of fifty-five 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 unamortized past service costs of \$1,049,773 will be amortized 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).

**CARIBBEAN UTILITIES COMPANY, LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**APRIL 30, 2003**

**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.

**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 US\$40 million Senior Unsecured Loan Notes (Note 6), was issued for proceeds of US\$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.