SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED: DECEMBER 31, 2002

COMMISSION FILE NUMBER: 001-11590

CHESAPEAKE UTILITIES CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

STATE OF DELAWARE	51-0064146
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

909 SILVER LAKE BOULEVARD, DOVER, DELAWARE 19904
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE)

302-734-6799
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK - PAR VALUE PER SHARE $.4867	NEW YORK STOCK EXCHANGE, INC.

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
8.25% CONVERTIBLE DEBENTURES DUE 2014
(TITLE OF CLASS)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X]. No [ ].

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. [ ]

Indicate by checkmark whether the registrant is an accelerated filer (as defined by Exchange Act Rule 12b-2). Yes [X]. No [ ].

As of March 24, 2003, 5,576,414 shares of common stock were outstanding. The aggregate market value of the common shares held by non-affiliates of Chesapeake Utilities Corporation as of June 28, 2002, the last business day of its most recently completed second fiscal quarter, based on the last trade price on that date, as reported by the New York Stock Exchange, was approximately $104 million.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Proxy Statement for the 2002 Annual Meeting of Stockholders are incorporated by reference in Part III.

CHESAPEAKE UTILITIES CORPORATION
FORM 10-K

YEAR ENDED DECEMBER 31, 2002

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PART I

ITEM 1. BUSINESS

Chesapeake has made statements in this Form 10-K that are considered to be forward-looking statements. These statements are not matters of historical fact. Sometimes they contain words such as "believes," "expects," "intends," "plans," "will," or "may," and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with the Company's propane operations, the competitive position of the Company and other matters. It is important to understand that these forward-looking statements are not guarantees, but are subject to certain risks and uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements. See Item 7 under the heading "Management's Discussion and Analysis - Cautionary Statement."

As a public company, Chesapeake files annual, quarterly and other reports, as well as its annual proxy statement and other information, with the Securities and Exchange Commission ("the SEC"). Chesapeake makes available, free of charge, on its Internet website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC.

(A) GENERAL DEVELOPMENT OF BUSINESS

Chesapeake Utilities Corporation ("Chesapeake" or "the Company") is a diversified utility company engaged in natural gas distribution and transmission, propane distribution and wholesale marketing, advanced information services, water conditioning and treatment ("water services") and other related businesses. The address of Chesapeake's Internet website is www.chpk.com. The content of this website is not part of this report.

Chesapeake's three natural gas distribution divisions serve approximately 45,100 residential, commercial and industrial customers in Delaware's Kent and Sussex counties, Maryland's Eastern Shore and parts of Florida. The Company's natural gas transmission subsidiary, Eastern Shore Natural Gas Company ("Eastern Shore"), operates a 304-mile interstate pipeline system that transports gas from various points in Pennsylvania to the Company's Delaware and Maryland distribution divisions, as well as to other utilities and industrial customers in southern Pennsylvania, Delaware and on the Eastern Shore of Maryland. The Company's propane distribution operation serves approximately 34,600 customers in central and southern Delaware, the Eastern Shore of both Maryland and Virginia and parts of Florida. The advanced information services segment provides consulting, staffing, product development, implementation and web-related services for national and international clients.

(B) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

Financial information by business segment is included in Item 7 under the heading "Notes to Consolidated Financial Statements - Note C."

(C) NARRATIVE DESCRIPTION OF BUSINESS

The Company is engaged in four primary business activities: natural gas distribution and transmission, propane distribution and wholesale marketing, advanced information services and water services. In addition to the primary groups, Chesapeake has subsidiaries in other related businesses.

(I) (A) NATURAL GAS DISTRIBUTION AND TRANSMISSION

GENERAL

Chesapeake distributes natural gas to approximately 45,100 residential, commercial and industrial customers in Delaware's Kent and Sussex counties, the Salisbury and Cambridge, Maryland areas on Maryland's Eastern Shore and parts of Florida. These activities are conducted through three utility divisions, one division in Delaware, another in Maryland and a third division in Florida. The Company also offers natural gas supply and supply management services in the state of Florida under the name of Peninsula Energy Services Company ("PESCO").

Delaware and Maryland. Chesapeake's Delaware and Maryland utility divisions ("Delaware," "Maryland" or "the divisions") serve an average of approximately 34,350 customers, of which approximately 34,190 are residential and commercial customers purchasing gas primarily for heating purposes. The remainder are industrial customers. For the year 2002, residential and commercial customers accounted for approximately 55% of the volume delivered by the divisions and 70% of the divisions' revenue. The divisions' industrial customers purchase gas, primarily on an interruptible basis, for a variety of manufacturing, agricultural and other uses. Most of Chesapeake's customer growth in these divisions comes from new residential construction using gas-heating equipment.

Florida. The Florida division distributes natural gas to approximately 11,000 residential and commercial and 90 industrial customers in Polk, Osceola, Hillsborough, Gadsden, Gilchrist, Union, Holmes, Jackson, Desoto, Suwannee and Citrus Counties. Currently the 90 industrial customers, which purchase and transport gas on a firm basis, account for approximately 97% of the volume delivered by the Florida division and 64% of the revenues. These customers are primarily engaged in the citrus and phosphate industries and in electric cogeneration. The Company's Florida division, through Peninsula Energy Services Company, provides natural gas supply management services to 250 customers.

Eastern Shore. The Company's wholly owned transmission subsidiary, Eastern Shore, operates an interstate natural gas pipeline and provides open access transportation services for affiliated and non-affiliated companies through an integrated gas pipeline extending from southeastern Pennsylvania to Delaware and the Eastern Shore of Maryland. Eastern Shore also provides swing transportation service and contract storage services for system balancing purposes. Eastern Shore's rates are subject to regulation by the Federal Energy Regulatory Commission ("FERC").

ADEQUACY OF RESOURCES

General. The Delaware and Maryland divisions have both firm and interruptible contracts with four interstate "open access" pipelines including Eastern Shore. The divisions are directly interconnected with Eastern Shore and services upstream of Eastern Shore are contracted with Transco Gas Pipeline Corporation ("Transco"), Columbia Gas Transmission ("Columbia") and Columbia Gulf Transmission Company ("Gulf"). The divisions use their firm transportation supply resources to meet a significant percentage of their projected demand requirements. In order to meet the difference between firm supply and firm demand, the divisions purchase natural gas supply on the spot market from various suppliers. This gas is transported by the upstream pipelines and delivered to the divisions' interconnects with Eastern Shore. The divisions also have the capability to use propane-air peak-shaving to supplement or displace the spot market purchases. The Company believes that the availability of gas supply and transportation to the Delaware and Maryland divisions is adequate under existing arrangements to meet the anticipated needs of their customers.

Delaware. Delaware's contracts with Transco include: (a) firm transportation capacity of 8,663 dekatherms ("Dt") per day, which expires in 2005; (b) firm transportation capacity of 311 Dt per day for December through February, expiring in 2006; and (c) firm transportation capacity of 366 Dt per day, which expires in 2005; and (d) firm storage service, providing a total capacity of 142,830 Dt, with provisions to continue from year to year, subject to six (6) months notice for termination.

Delaware's contracts with Columbia include: (a) firm transportation capacity of 852 Dt per day, which expires in 2014; (b) firm transportation capacity of 1,132 Dt per day, which expires in 2017; (c) firm transportation capacity of 549 Dt per day, which expires in 2018; (d) firm transportation capacity of 899 per day, which expires in 2019; (e) firm storage service providing a peak day entitlement of 6,193 Dt and a total capacity of 298,195 Dt, which expires in 2014; (f) firm storage service, providing a peak day entitlement of 635 Dt and a total capacity of 57,139 Dt, which expires in 2017; (g) firm storage service providing a peak day entitlement of 583 Dt and a total capacity of 52,460 Dt, which expires in 2018; and (h) firm storage service providing a peak day entitlement of 583 Dt and a total capacity of 52,460 Dt, which expires in 2019. Delaware's contracts with Columbia for storage-related transportation provide quantities that are equivalent to the peak day entitlement for the period of October through March and are equivalent to fifty percent (50%) of the peak day entitlement for the period of April through September. The terms of the storage-related transportation contracts mirror the storage services that they support.

Delaware's contract with Gulf, which expires in 2004, provides firm transportation capacity of 868 Dt per day for the period November through March and 798 Dt per day for the period April through October.

Delaware's contracts with Eastern Shore include: (a) firm transportation capacity of 32,087 Dt per day for the period December through February, 30,865 Dt per day for the months of November, March and April, and 21,789 Dt per day for the period May through October, with various expiration dates ranging from 2004 to 2017; (b) firm storage capacity under Eastern Shore's Rate Schedule GSS providing a peak day entitlement of 2,655 Dt and a total capacity of 131,370 Dt, which expires in 2013; (c) firm storage capacity under Eastern Shore's Rate Schedule LSS providing a peak day entitlement of 580 Dt and a total capacity of 29,000 Dt, which expires in 2013; and (d) firm storage capacity under Eastern Shore's Rate Schedule LGA providing a peak day entitlement of 911 Dt and a total capacity of 5,708 Dt, which expires in 2006. Delaware's firm transportation contracts with Eastern Shore also include Eastern Shore's provision of swing transportation service. This service includes: (a) firm transportation capacity of 1,846 Dt per day on Transco's pipeline system, retained by Eastern Shore, in addition to Delaware's Transco capacity referenced earlier and (b) an interruptible storage service under Transco's Rate Schedule ESS that supports a swing supply service provided under Transco's Rate Schedule FS.

Delaware currently has contracts for the purchase of firm natural gas supply with several suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 20,600 Dt and the supplies are transported by Transco, Columbia, Gulf and Eastern Shore under firm transportation contracts. The gas purchase contracts have various expiration dates and daily quantities may vary from day to day and month to month.

Maryland. Maryland's contracts with Transco include: (a) firm transportation capacity of 4,738 Dt per day, which expires in 2005; (b) firm transportation capacity of 155 Dt per day for December through February, expiring in 2006; and (c) firm storage service providing a total capacity of 33,120 Dt, with provisions to continue from year to year, subject to six months notice for termination.

Maryland's contracts with Columbia include: (a) firm transportation capacity of 442 Dt per day, which expires in 2014; (b) firm transportation capacity of 908 Dt per day, which expires in 2017; (c) firm transportation capacity of 350 Dt per day, which expires in 2018; (d) firm storage service providing a peak day entitlement of 3,142 Dt and a total capacity of 154,756 Dt, which expires in 2014; and (e) firm storage service providing a peak day entitlement of 521 Dt and a total capacity of 46,881 Dt, which expires in 2017. Maryland's contracts with Columbia for storage-related transportation provide quantities that are equivalent to the peak day entitlement for the period October through March and are equivalent to fifty percent (50%) of the peak day entitlement for the period April through September. The terms of the storage-related transportation contracts mirror the storage services that they support.

Maryland's contract with Gulf, which expires in 2004, provides firm transportation capacity of 590 Dt per day for the period November through March and 543 Dt per day for the period April through October.

Maryland's contracts with Eastern Shore include: (a) firm transportation capacity of 13,378 Dt per day for the period December through February, 12,654 Dt per day for the months of November, March and April, and 8,093 Dt per day for the period May through October; (b) firm storage capacity under Eastern Shore's Rate Schedule GSS providing a peak day entitlement of 1,428 Dt and a total capacity of 70,665 Dt, which expires in 2013; (c) firm storage capacity under Eastern Shore's Rate Schedule LSS providing a peak day entitlement of 309 Dt and a total capacity of 15,500 Dt, which expires in 2013; and (d) firm storage capacity under Eastern Shore's Rate Schedule LGA providing a peak day entitlement of 569 Dt and a total capacity of 3,560 Dt, which expires in 2006. Maryland's firm transportation contracts with Eastern Shore also include Eastern Shore's provision of swing transportation service. This service includes: (a) firm transportation capacity of 969 Dt per day on Transco's pipeline system, retained by Eastern Shore, in addition to Maryland's Transco capacity referenced earlier and (b) an interruptible storage service under Transco's Rate Schedule ESS that supports a swing supply service provided under Transco's Rate Schedule FS.

Maryland currently has contracts for the purchase of firm natural gas supply with several suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 7,600 Dt and the supplies are transported by Transco, Columbia, Gulf and Eastern Shore under Maryland's transportation contracts. The gas purchase contracts have various expiration dates and daily quantities may vary from day to day and month to month.

Florida. The Florida division receives transportation service from Florida Gas Transmission Company ("FGT"), a major interstate pipeline. Chesapeake has contracts with FGT for: (a) daily firm transportation capacity of 27,579 Dt in November through April, 21,200 Dt in May through September, and 27,416 Dt in October under FGT's firm transportation service FTS-1 rate schedule; (b) daily firm transportation capacity of 1,000 Dt daily under FGT's firm transportation service FTS-2 rate schedule. The firm transportation contract FTS-1 expires on July 31, 2010 with the Company retaining a right of first refusal on this capacity. The firm transportation contract FTS-2 expires on March 1, 2015. Chesapeake requested a turnback of all but 1,000 Dt per day year round of its FTS-2 capacity. This turnback coincided with the in service dates of FGT's Phase 5 Project in the second quarter of 2002.

The Florida division also began receiving transportation service from Gulfstream Natural Gas System ("Gulfstream"), beginning in June 2002. Chesapeake has a contract with Gulfstream for daily firm transportation capacity of 10,200 Dt daily. The contract with Gulfstream expires May 31, 2022.

The Florida division received its gas supply from various suppliers. If needed, some supply was bought on the spot market; however, the majority was bought under the terms of two firm supply contacts. On November 5, 2002, the Florida Public Service Commission authorized the Florida division to convert all remaining sales customers to transportation service and exit the gas supply function.

Eastern Shore. Eastern Shore has 2,888 thousand cubic feet ("Mcf") of firm transportation capacity under Rate Schedule FT under contract with Transco, which expires in 2005. Eastern Shore also has 7,046 Mcf of firm peak day entitlements and total storage capacity of 278,264 Mcf under Rate Schedules GSS, LSS and LGA, respectively, under contract with Transco. The GSS and LSS contracts expire in 2013 and the LGA contract expires in 2006.

Eastern Shore also has firm storage service under Rate Schedule FSS and firm storage transportation capacity under Rate Schedule SST under contract with Columbia. These contracts, which expire in 2004, provide for 1,073 Mcf of firm peak day entitlement and total storage capacity of 53,738 Mcf.

Eastern Shore has retained the firm transportation capacity and firm storage services described above in order to provide swing transportation service to those customers that requested such service.

COMPETITION

See discussion on competition in Item 7 under the heading "Management's Discussion and Analysis - Competition."

RATES AND REGULATION

General. Chesapeake's natural gas distribution divisions are subject to regulation by the Delaware, Maryland and Florida Public Service Commissions with respect to various aspects of the Company's business, including the rates for sales to all of their customers in each jurisdiction. All of Chesapeake's firm distribution rates are subject to purchased gas adjustment clauses, which match revenues with gas costs and normally allow eventual full recovery of gas costs. Adjustments under these clauses require periodic filings and hearings with the relevant regulatory authority, but do not require a general rate proceeding.

Eastern Shore is subject to regulation by the FERC as an interstate pipeline. The FERC regulates the provision of service, terms and conditions of service, and the rates and fees Eastern Shore can charge for its transportation services. In addition, the FERC regulates the rates Eastern Shore is charged for transportation and transmission line capacity and services provided by Transco and Columbia.

Management monitors the rate of return in each jurisdiction in order to ensure the timely filing of rate adjustment applications.

REGULATORY PROCEEDINGS

Delaware. In September 1998, Chesapeake's Delaware division filed an application with the Delaware Public Service Commission ("DPSC") to propose certain rate design changes to its existing margin sharing mechanism, which was approved in Chesapeake's last rate case.

The Company proposed certain rate design changes to its existing margin sharing mechanism in order to address the level of recovery of fixed distribution costs from the residential heating service customers and smaller commercial heating customers. The Company also proposed to change the existing margin sharing mechanism to take into consideration the appropriate treatment of margins achieved by the addition of new interruptible customers on the distribution system for which the Company makes additional capital investments.

In March 1999, the Company, DPSC Staff and the Division of the Public Advocate settled all the issues in this matter and executed a proposed settlement agreement. The settlement allows the Company to increase or decrease the current margin sharing thresholds based on the actual level of recovery of fixed distribution costs from residential service heating and general service heating customers as compared to the level at which the base tariff rates were designed to recover in the last rate case. Per the settlement, the Company can implement an adjustment to the margin sharing thresholds if the weather is at least 6.5% warmer or colder than normal; however, the total increase or decrease in the amount of additional gross margin that the Company will retain or credit to the firm ratepayers cannot exceed a $500,000 cap.

Also under the agreements, the Company excludes the interruptible margins from the existing margin sharing mechanism for one specific interruptible customer on its distribution system for whom the Company made a capital investment to serve and currently has under a contract for interruptible service. Any additional margin retained for this customer will be included in the $500,000 cap mentioned above. The DPSC issued its final approval of the proposed settlement on May 25, 1999.

The Company earned or retained $500,000 of additional gross margin during 2000 as the Company met the requirements of the approved settlement in order to implement the approved mechanism. The mechanism had no impact on 2001 gross margins.

On August 2, 2001, the Delaware Division filed a general rate increase application. Interim rates, subject to refund went into effect on October 1, 2001. The Delaware Public Service Commission approved a settlement agreement for Phase I of the Rate Increase Application in April 2002. Phase I should result in an increase in rates of approximately $380,000 per year. The Company, the Commission staff and the Division of the Public Advocate have reached a settlement agreement for Phase II. The Delaware Public Service Commission approved the agreement in November 2002. The impact of Phase II should result in an additional increase in rates of approximately $90,000 per year. Phase II also reduced the Company's sensitivity to warmer than normal weather by changing the minimum customer charge and the margin sharing arrangement for interruptible sales, off system sales and capacity release income.

As a result of filing the general rate increase application on August 2, 2001, the Delaware Division's previously approved rate design changes in 1999 to its margin sharing mechanism terminated. The previous rate design changes that addressed the level of recovery of fixed distribution costs from its residential and smaller commercial customers in relation to its margin sharing mechanism and the actual weather experienced, ended upon the implementation of interim rates on October 1, 2001.

Maryland. During the 1999 Maryland General Assembly legislative session, taxation of electric and gas utilities changed by the passage of The Electric and Gas Utility Tax Reform Act ("Tax Act"). Effective January 1, 2000, the Tax Act altered utility taxation to account for the restructuring of the electric and gas industries by either repealing and/or amending the existing Public Service Company Franchise Tax, Corporate Income Tax and Property Tax. Chesapeake submitted a regulatory filing with the Maryland Public Service Commission ("MPSC") on December 30, 1999 to implement new tariff sheets necessary to incorporate the changes necessitated by the passage of the Tax Act. The tariff revisions (1) would implement new base tariff rates to reflect the estimated state corporate income tax liability; (2) assess the new per unit distribution franchise tax; and (3) repeal specified portions of the tariff that related to the former 2% gross receipts tax.

On January 12, 2000, the Maryland Public Service Commission ("MPSC") issued an order requiring the Company to file new tariff sheets, with an effective date of January 12, 2000, to increase its natural gas delivery service rates by $82,763 on an annual basis to recover the estimated impact of the state corporate income tax. Also as part of the MPSC order, the Company was directed to recover the new distribution franchise tax of $0.0042 per Ccf as a separate line item charge on the customers' bills. On January 14, 2000, the Company filed new natural gas tariff sheets in compliance with the MPSC order.

Florida. On August 8, 2001, the Florida Division filed a petition for approval of tariff modifications relating to the Competitive Rate Adjustment Cost Recovery Clause (the "Clause"). On October 1, 2001, the Florida Public Service Commission ("FPSC") issued an order approving the Clause. The Clause provides for the equitable distribution of surpluses or collection of shortfalls from both sales and transportation customers, excluding "market price" customers, of any variances between tariff rates and actual revenue derived from those customers who are provided service under the flexible rate tariff.

On November 19, 2001, the Florida Division filed a petition with the Florida Public Service Commission for approval of certain transportation cost recovery factors. The Florida Public Service Commission approved the factors on January 24, 2002. In the Florida Division's rate case approved in November 2000, the FPSC approved the concept but not the specifics of the recovery methodology or the level of costs to be recovered. The methodology and factors approved provide for the recovery, over a two-year period, of the Florida Division's actual and projected expenses incurred in the implementation of the transportation provisions of the tariff as approved in the November 2000 rate case.

On February 4, 2002, the FPSC approved a special contract with Suwannee American Limited Partnership. The agreement is for the construction of distribution facilities connecting Florida Gas Transmission's ("FGT") pipeline to the Suwannee American cement plant in order to provide natural gas service. The FGT pipeline and all of the Florida Division's facilities are located on Suwannee America's property located in Suwannee County, Florida.

On November 5, 2002, the Florida Public Service Commission authorized the Florida division to convert all remaining sales customers to transportation service and exit the gas supply function. Implementation of Phase One of the Transitional Transportation Service ("TTS") program is underway and all remaining sales customers have been assigned to a gas marketer selected to manage the TTS customer pool.

Eastern Shore. On December 9, 1999, Eastern Shore filed an application before the FERC requesting authorization for the following: (1) construction and operation of approximately two miles of 16-inch mainline looping in Pennsylvania, (2) abandonment of one mile of 2-inch lateral in Delaware and Maryland and replacement of the segment with a 4-inch lateral, (3) construction and operation of approximately ten miles of 6-inch mainline extension in Delaware, (4) construction and operation of five delivery points on the new 6-inch mainline extension in Delaware, and (5) installation certain minor auxiliary facilities at the existing Daleville compressor station in Pennsylvania. The purpose of the construction was to enable Eastern Shore to provide 7,065 Dekatherms of additional daily firm service capacity on Eastern Shore's system. The FERC approved Eastern Shore's application on April 28, 2000. The two miles of 16-inch mainline looping in Pennsylvania and the one mile of 4-inch lateral replacement in Delaware and Maryland were completed and placed in service during the fourth quarter of 2000. The ten miles of 6-inch mainline extension and associated delivery points in Delaware were completed and placed into service during the third quarter of 2001.

On January 11, 2001, Eastern Shore filed an application before the FERC requesting authorization for the following: (1) construction and operation of six miles of 16-inch pipeline looping in Pennsylvania and Maryland, (2) installation of 3,330 horsepower of additional capacity at the existing Daleville compressor station and (3) construction and operation of a new delivery point in Chester County, Pennsylvania. The purpose of the construction was to enable Eastern Shore to provide 19,800 Dt of additional daily firm service capacity on its system. The expansion was completed and placed in service in the fourth quarter of 2001.

On January 25, 2002, Eastern Shore filed an application before FERC requesting authorization for the following: (1) Segment 1 - construction and operation of 1.5 miles of 16-inch mainline looping in Pennsylvania on Eastern Shore's existing right-of-way; and (2) Segment 2 - construction and operation of 1.0 mile of 16-inch mainline looping in Maryland and Delaware on, or adjacent to, Eastern Shore's existing right-of-way. The purpose of the construction was to enable Eastern Shore to provide 4,500 Dt of additional daily firm capacity on Eastern Shore's system. The expansion was completed and placed into service during the fourth quarter of 2002.

On October 31, 2001, Eastern Shore Natural Gas Company, the Company's natural gas transmission subsidiary, filed a rate change with the FERC pursuant to the requirements of the Stipulation and Agreement dated August 1, 1997. Following settlement conferences held in May 2002, the parties reached a settlement in principle on or about May 23, 2002 to resolve all issues related to its rate case.

The Offer of Settlement and the Stipulation and Agreement were finalized and filed with the FERC on August 2, 2002. The agreement provides that Eastern Shore's rates will be based on a cost of service of $12.9 million per year. Cost savings estimated at $456,000 will be passed on to firm transportation customers. Initial comments supporting the settlement agreement were filed by the FERC staff and by Eastern Shore. No adverse comments were filed. The Presiding Judge certified the Offer of Settlement to the FERC as uncontested on August 27, 2002. On October 10, 2002, the FERC issued an Order approving the Offer of Settlement and the Stipulation and Agreement. The settlement rates went into effect December 1, 2002.

During October 2002, Eastern Shore filed for recovery of gas supply realignment costs associated with the implementation of FERC Order No. 636. The costs totaled $196,000 (including interest). On November 14, 2002, the FERC issued an Order requiring Eastern Shore to fulfill certain requirements prior to FERC's review of Eastern Shore's application. It is anticipated Eastern Shore will refile for recovery of these costs during the second quarter of 2003. It is uncertain at this time when the FERC will consider this matter or the ultimate outcome.

(I) (B) PROPANE DISTRIBUTION AND MARKETING

GENERAL

Chesapeake's propane distribution group consists of (1) Sharp Energy, Inc. ("Sharp Energy"), a wholly owned subsidiary of Chesapeake, (2) Sharpgas, Inc. ("Sharpgas"), a wholly owned subsidiary of Sharp Energy, and (3) Tri-County Gas Company, Inc. ("Tri-County"), a wholly owned subsidiary of Chesapeake. The propane marketing group consists of Xeron, Inc. ("Xeron"), a wholly owned subsidiary of Chesapeake.

Propane is a form of liquefied petroleum gas, which is typically extracted from natural gas or separated during the crude oil refining process. Although propane is a gas at normal pressure, it is easily compressed into liquid form for storage and transportation. Propane is a clean-burning fuel, gaining increased recognition for its environmental superiority, safety, efficiency, transportability and ease of use relative to alternative forms of energy. Propane is sold primarily in suburban and rural areas, which are not served by natural gas pipelines. Demand is typically much higher in the winter months and is significantly affected by seasonal variations, particularly the relative severity of winter temperatures, because of its use in residential and commercial heating.

The Company's propane distribution operations served approximately 34,600 propane customers on the Delmarva Peninsula and delivered approximately 21 million retail and wholesale gallons of propane during 2002.

In May 1998, Chesapeake acquired Xeron, a natural gas liquids trading company located in Houston, Texas. Xeron markets propane to large independent and petrochemical companies, resellers and southeastern retail propane companies in the United States. Additional information on Xeron's trading and wholesale marketing activities, market risks and the controls that limit and monitor the risks are included in Item 7 under the heading "Management's Discussion and Analysis - Cautionary Statement."

The propane distribution business is affected by many factors such as seasonality, the absence of price regulation and competition among local providers. The propane marketing business is affected by wholesale price volatility and the supply and demand for propane at a wholesale level.

ADEQUACY OF RESOURCES

The Company's propane distribution operations purchase propane primarily from suppliers, including major domestic oil companies and independent producers of gas liquids and oil. Supplies of propane from these and other sources are readily available for purchase by the Company. Supply contracts generally include minimum (not subject to take-or-pay premiums) and maximum purchase provisions.

The Company's propane distribution operations use trucks and railroad cars to transport propane from refineries, natural gas processing plants or pipeline terminals to the Company's bulk storage facilities. From these facilities, propane is delivered in portable cylinders or by "bobtail" trucks, owned and operated by the Company, to tanks located at the customer's premises.

Xeron does not own physical storage facilities or equipment to transport propane; however, it contracts for storage and pipeline capacity to facilitate the sale of propane on a wholesale basis.

COMPETITION

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price, emphasizing reliability of service and responsiveness. Competition is generally from local outlets of national distribution companies and local businesses, because distributors located in close proximity to customers incur lower costs of providing service. Propane competes with electricity as an energy source, because it is typically less expensive than electricity, based on equivalent BTU value. Propane also competes with home heating oil as an energy source. Since natural gas has historically been less expensive than propane, propane is generally not distributed in geographic areas serviced by natural gas pipeline or distribution systems.

Xeron competes against various marketers, many of which have significantly greater resources and are able to obtain price or volumetric advantages over Xeron.

The Company's propane distribution and marketing activities are not subject to any federal or state pricing regulation. Transport operations are subject to regulations concerning the transportation of hazardous materials promulgated under the Federal Motor Carrier Safety Act, which is administered by the United States Department of Transportation and enforced by the various states in which such operations take place. Propane distribution operations are also subject to state safety regulations relating to "hook-up" and placement of propane tanks.

The Company's propane operations are subject to all operating hazards normally associated with the handling, storage and transportation of combustible liquids, such as the risk of personal injury and property damage caused by fire. The Company carries general liability insurance in the amount of $35 million, but there is no assurance that such insurance will be adequate.

(I) (C) ADVANCED INFORMATION SERVICES

GENERAL

Chesapeake's advanced information services segment consists of BravePoint, Inc. ("BravePoint"), a wholly owned subsidiary of the Company. The Company changed its name from United Systems, Inc. in 2001 to reflect a change in service offerings.

BravePoint is based in Atlanta and primarily provides web-related products and services and support for users of PROGRESS , a fourth generation computer language and Relational Database Management System. BravePoint offers consulting, staffing, product development, implementation and web-related services for its client base, which includes many large domestic and international corporations.

COMPETITION

The advanced information services business faces significant competition from a number of larger competitors having substantially greater resources available to them than does the Company. In addition, changes in the advanced information services business are occurring rapidly, which could adversely impact the markets for the products and services offered by these businesses.

(I) (D) WATER SERVICES

GENERAL

The Company owns several businesses involved in water conditioning and treatment and bottled water services. Sam Shannahan Well Co., Inc. (dba Sharp Water, Inc.) and Sharp Water, Inc. are wholly owned subsidiaries of Chesapeake. EcoWater Systems of Michigan, Inc. (dba Douglas Water Conditioning), Carroll Water Systems, Inc., Absolute Water Care, Inc., Sharp Water of Florida, Inc. (dba EcoWater Systems of Stuart), Sharp Water of Minnesota, Inc. (dba EcoWater Systems of Rochester) and Sharp Water of Idaho, Inc. (dba Intermountain Water) are wholly owned subsidiaries of Sharp Water, Inc.

COMPETITION

The water operations serve central and southern Delaware; the eastern shore of Virginia; Maryland; central Michigan; Rochester, Minnesota; Boise and Moscow, Idaho and parts of Florida. They face competition from a variety of national and local suppliers of water conditioning and treatment services and bottled water.

(I) (E) OTHER SUBSIDIARIES

Skipjack, Inc. ("Skipjack"), Eastern Shore Real Estate, Inc. and Chesapeake Investment Company are wholly owned subsidiaries of Chesapeake Service Company. Skipjack and Eastern Shore Real Estate, Inc. own and lease office buildings Delaware and Maryland to affiliates of Chesapeake. Chesapeake Investment Company is a Delaware affiliated investment company.

(II) SEASONAL NATURE OF BUSINESS

Revenues from the Company's residential and commercial natural gas sales and from its propane distribution activities are affected by seasonal variations, since the majority of these sales are to customers using the fuels for heating purposes. Revenues from these customers are accordingly affected by the mildness or severity of the heating season.

(III) CAPITAL BUDGET

A discussion of capital expenditures by business segment is included in Item 7 under the heading "Management Discussion and Analysis - Liquidity and Capital Resources."

(IV) EMPLOYEES

As of December 31, 2002, Chesapeake had 582 employees, including 196 in natural gas, 138 in propane, 90 in advanced information services and 127 in water conditioning. The remaining 31 employees are considered general and administrative and include officers of the Company, treasury, accounting, information technology, human resources and other administrative personnel.

(V) EXECUTIVE OFFICERS OF THE REGISTRANT
Information pertaining to the executive officers of the Company is as follows:

Ralph J. Adkins (age 60) Mr. Adkins is Chairman of the Board of Directors of Chesapeake. He has served as Chairman since 1997. Prior to January 1, 1999, Mr. Adkins served as Chief Executive Officer, a position he had held since 1990. During his tenure with Chesapeake Mr. Adkins has also served as President and Chief Executive Officer, President and Chief Operating Officer, Executive Vice President, Senior Vice President, Vice President and Treasurer of Chesapeake. He has been a director of Chesapeake since 1989.

John R. Schimkaitis (age 55) Mr. Schimkaitis assumed the role of Chief Executive Officer on January 1, 1999. He has served as President since 1997. His present term expires on May 20, 2003. Prior to his new post, Mr. Schimkaitis has also served as President and Chief Operating Officer, Executive Vice President and Chief Operating Officer, Senior Vice President and Chief Financial Officer, Vice President, Treasurer, Assistant Treasurer and Assistant Secretary of Chesapeake. He has been a director of Chesapeake since 1996.

Michael P. McMasters (age 44) Mr. McMasters is Vice President, Chief Financial Officer and Treasurer of Chesapeake Utilities Corporation. He has served as Vice President, Chief Financial Officer and Treasurer since December 1996. He previously served as Vice President of Eastern Shore, Director of Accounting and Rates and Controller. From 1992 to May 1994, Mr. McMasters was employed as Director of Operations Planning for Equitable Gas Company.

Stephen C. Thompson (age 42) Mr. Thompson is Vice President of the Natural Gas Operations as well as Vice President of Chesapeake Utilities Corporation. He has served as Vice President since May 1997. He has served as President, Vice President, Director of Gas Supply and Marketing, Superintendent of Eastern Shore and Regional Manager for the Florida Distribution Operations.

William C. Boyles (age 45) Mr. Boyles is Vice President and Corporate Secretary of Chesapeake Utilities Corporation. Mr. Boyles has served as Corporate Secretary since 1998 and Vice President since 1997. He previously served as Director of Administrative Services, Director of Accounting and Finance, Treasurer, Assistant Treasurer and Treasury Department Manager. Prior to joining Chesapeake, he was employed as a Manager of Financial Analysis at Equitable Bank of Delaware and Group Controller at Irving Trust Company of New York.

ITEM 2. PROPERTIES

(A) GENERAL
The Company owns offices and operates facilities in the following locations: Pocomoke, Salisbury, Cambridge and Princess Anne, Maryland; Dover, Seaford, Laurel and Georgetown, Delaware; Winter Haven, Florida; and Fenton, Michigan. Chesapeake rents office space in Dover and Ocean View, Delaware; Jupiter, Lecanto, Venice and Stuart, Florida; Chincoteague and Belle Haven, Virginia; Easton, Salisbury, Westminster, Severna Park and Pocomoke, Maryland; Waterford, Michigan; Houston, Texas; Atlanta, Georgia; Boise and Moscow, Idaho; and Rochester, Minnesota. In general, the properties of the Company are adequate for the uses for which they are employed. Capacity and utilization of the Company's facilities can vary significantly due to the seasonal nature of the natural gas and propane distribution businesses.

(B) NATURAL GAS DISTRIBUTION
Chesapeake owns over 712 miles of natural gas distribution mains (together with related service lines, meters and regulators) located in its Delaware and Maryland service areas and 547 miles of such mains (and related equipment) in its Central Florida service areas. Chesapeake also owns facilities in Delaware and Maryland for propane-air injection during periods of peak demand. Portions of the properties constituting Chesapeake's distribution system are encumbered pursuant to Chesapeake's First Mortgage Bonds.

(C) NATURAL GAS TRANSMISSION
Eastern Shore owns approximately 304 miles of transmission pipelines extending from three supply interconnects at Parkesburg, Pennsylvania; Daleville, Pennsylvania and Hockessin, Delaware to over seventy-five delivery points in southeastern Pennsylvania, the eastern shore of Maryland and Delaware. Eastern Shore also owns three compressor stations located in Delaware City, Delaware; Daleville, Pennsylvania and Bridgeville, Delaware. The compressor stations are used to increase pressures as necessary to meet system demands.

(D) PROPANE DISTRIBUTION AND MARKETING
The company's Delmarva-based propane distribution operation owns bulk propane storage facilities with an aggregate capacity of approximately 2.2 million gallons at 31 plant facilities in Delaware, Maryland and Virginia, located on real estate they either own or lease. The company's Florida-based propane distribution operation owns three bulk propane storage facilities with a total capacity of 66,000 gallons. Xeron does not own physical storage facilities or

equipment to transport propane.

(E) WATER SERVICES

The Company owns and operates a resin regeneration facility in Salisbury, Maryland to serve exchange tank and metered water customers and a sales office in Fenton, Michigan. The other water operations operate out of rented facilities.

ITEM 3. LEGAL PROCEEDINGS

(A) GENERAL

The Company and its subsidiaries are involved in certain legal actions and claims arising in the normal course of business. The Company is also involved in certain legal and administrative proceedings before various governmental agencies concerning rates. In the opinion of management, the ultimate disposition of these proceedings will not have a material effect on the consolidated financial position of the Company.

(B) ENVIRONMENTAL

DOVER GAS LIGHT SITE

In 1984, the State of Delaware notified the Company that they had discovered contamination on a parcel of land it purchased in 1949 from Dover Gas Light Company, a predecessor gas company. The State also asserted that the Company was the responsible party for any clean-up and prospective environmental monitoring of the site. The Delaware Department of Natural Resources and Environmental Control ("DNREC") and Chesapeake conducted subsequent investigations and studies beginning in 1984 and 1985. Soil and ground-water contamination associated with the operations of the former manufactured gas plant ("MGP"), the Dover Gas Light Company, were found on the property.

In February 1986, the State of Delaware entered into an agreement ("the 1986 Agreement") with Chesapeake whereby Chesapeake reimbursed the State for its costs to purchase an alternate property for construction of its Family Court Building and the State agreed to never construct on the property of the former MGP.

In October 1989, the Environmental Protection Agency ("EPA") listed the Dover Gas Light Site ("site") on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund"). EPA named both the State of Delaware and the Company as potentially responsible parties ("PRPs") for the site.

The EPA issued a clean-up remedy for the site through a Record of Decision ("ROD") dated August 16, 1994. The remedial action selected by the EPA in the ROD addressed the ground-water and soil. The ground-water remedy included a combination of hydraulic containment and natural attenuation. The soil remedy included complete excavation of the former MGP property. The ROD estimated the costs of the selected remediation of ground-water and soil at $2.7 million and $3.3 million, respectively.

In May 1995, EPA issued an order to the Company under section 106 of CERCLA (the "Order"), which required the Company to implement the remedy described in the ROD. The Order was also issued to General Public Utilities Corporation, Inc. ("GPU"), which both EPA and the Company believe is liable under CERCLA. Other PRPs, including the State of Delaware, were not ordered to perform the ROD. Although notifying EPA of its objections to the Order, the Company agreed to comply. GPU informed EPA that it did not intend to comply with the Order and to this date has not fulfilled its remedial action obligation under the EPA Order.

The Company performed field studies and investigations during 1995 and 1996 to further characterize the extent of contamination at the site. In April 1997, the EPA issued a fact sheet stating that the EPA was considering a modification to the soil remedy that would take into account the site's future land use restrictions, which prohibited future development on the site. The EPA proposed a soil remediation that included some on-site excavation of contaminated soils and use of institutional controls; EPA estimated the cost of its proposed soil remedy at $5.7 million. Additionally, the fact sheet acknowledged that the soil remedy described in the ROD would cost $10.5 million, instead of the $3.3 million estimated in the ROD, making the overall remedy cost $13.2 million ($10.5 million to perform the soil remedy and $2.7 million to perform the ground-water remediation).

In June 1997, the Company proposed an alternative soil remedy that would take into account the 1986 Agreement between Chesapeake and the State of Delaware restricting future development at the site. On December 16, 1997, the EPA issued a ROD Amendment to modify the soil remedy to include: (1) excavation and off-site thermal treatment of the contents of the former subsurface gas holders; (2) implementation of soil vapor extraction; (3) pavement of the parking lot and (4) use of institutional controls restricting future development on the site. The overall clean-up cost of the site was estimated at $4.2 million ($1.5 million for soil remediation and $2.7 million for ground-water remediation).

During the fourth quarter of 1998, the Company completed the field work associated with the remediation of the gas holders (a major component of the soil remediation). During the first quarter of 1999, the Company submitted reports to the EPA documenting the gas holder remedial activities and requesting closure of the gas holder remedial project. In April 1999, the EPA approved the closure of the gas holder remediation project, certified that all performance standards for the project were met and no additional work was needed for that phase of the soil remediation. The gas holder remediation project was completed at a cost of $550,000.

During 1999, the Company completed the construction of the soil vapor extraction ("SVE") system (another major component of the soil remediation) and continued with the ongoing operation of the system at a cost of $250,000. In 2000, the Company operated the SVE system and during the last quarter of 2000, the Company submitted to the EPA their finding along with a request to discontinue the SVE operations. In March 2001, the EPA approved discontinuation of the SVE system and certified that the performance standards were met. The SVE decommissioning and well abandonment were completed in June of 2001.

The parking lot construction (the remaining component of the soil remediation) was completed in August 2002. It was constructed on the former manufactured gas plant property, which is currently the location of the State of Delaware's Johnson Victrola Museum. A final inspection of the parking lot was conducted on August 19, 2002 at which time the USEPA and the State of Delaware gave its final approval of the work.

A Remedial Action ("RA") Report was submitted to the EPA in September 2002 as part of a request to close out the soil remedial program completed on the property. The Remedial Action Report included a summary documentation of the soil remediation (soil vapor extraction, holder remediation and parking lot construction activities) completed on the property. Pending approval of the consent decrees and EPA's final approval of the RA report, close out of the soil remediation conducted on the property will fulfill Chesapeake's remedial action obligations for the site.

Discussions regarding an appropriate ground-water remedy for the site have continued. The Company's independent consultants prepared preliminary cost estimates of two potentially acceptable alternatives to complete the ground-water remediation activities at the site. The costs range from a low of $390,000 in capital and $37,000 per year of operating costs for 30 years for natural attenuation to a high of $3.3 million in capital and $1.0 million per year in operating costs to operate a pump-and-treat / ground-water containment system. The pump-and-treat / ground-water containment system is intended to contain the MGP contaminants to allow the ground-water outside of the containment area to naturally attenuate. The operating cost estimate for the containment system is dependent upon the actual ground-water quality and flow conditions. The EPA is working with another responsible party to further investigate the viability of monitored natural attenuation as the ground-water remedy.

In March 1995, the Company commenced litigation against the State of Delaware for contribution to the remedial costs being incurred to implement the ROD. In December of 1995, this case was dismissed without prejudice based on a settlement agreement between the parties (the "Settlement"). Under the Settlement, the State agreed to: reaffirm the 1986 Agreement with Chesapeake not to construct on the MGP property and support the Company's proposal to reduce the soil remedy for the site; contribute $600,000 toward the cost of implementing the ROD and reimburse the EPA for $400,000 in oversight costs. The Settlement is contingent upon a formal settlement agreement between EPA and the State of Delaware. Upon satisfaction of all conditions of the Settlement, the litigation will be dismissed with prejudice.

In June 1996, the Company initiated litigation against GPU (now First Energy) for response costs incurred by Chesapeake and a declaratory judgment as to GPU's liability for future costs at the site. In August 1997, the United States Department of Justice also filed a lawsuit against GPU seeking a Court Order to require GPU to participate in the site clean-up, pay penalties for GPU's failure to comply with the EPA Order, pay EPA's past costs and a declaratory judgment as to GPU's liability for future costs at the site. In November 1998, Chesapeake's case was consolidated with the United States' case against GPU. A case management order scheduled the trial for February 2001. In early February 2001, the Company and GPU reached a tentative settlement agreement that is subject to approval of the courts.

In May 2001, Chesapeake, GPU, the State of Delaware and the EPA signed a settlement term sheet reflecting the agreement in principle to settle a lawsuit with respect to the Dover Gas Light site. The terms of the final agreement have been memorialized in two consent decrees and have now been approved by all parties. The consent decrees have been presented by the Department of Justice to its highest level of management for final approval. The consent decrees will then be published for public comment and submitted to a federal judge for approval.

If the agreement in principle receives final approval, Chesapeake will:

- Receive a net payment of $1.15 million from other parties to the agreement. These proceeds will be passed on to Chesapeake's firm customers, in accordance with the environmental rate rider.
- Receive a release from liability and covenant not to sue from the EPA and the State of Delaware. This will relieve Chesapeake from liability for future remediation at the site, unless previously unknown conditions are discovered at the site, or information previously unknown to EPA is received that indicates the remedial action related to the prior manufactured gas plant is not sufficiently protective. These contingencies are standard, and are required by the United States in all liability settlements.

At December 31, 2001, the Company had accrued $2.1 million of costs associated with the remediation of the Dover site and had recorded an associated regulatory asset for the same amount. Of that amount, $1.5 million was for estimated ground-water remediation and $600,000 was for remaining soil remediation. The $1.5 million represented the low end of the ground-water remediation estimates prepared by an independent consultant and was used because the Company could not, at that time, predict the remedy the EPA might require.

Upon receiving final court approval of the consent decrees, Chesapeake will reduce both the accrued environmental liability and the associated environmental regulatory asset to the amount required to complete its obligations.

Through December 31, 2002, the Company has incurred approximately $9.2 million in costs relating to environmental testing and remedial action studies at the Dover site. In 1990, the Company entered into settlement agreements with a number of insurance companies resulting in proceeds to fund actual environmental costs incurred over a five to seven-year period. In 1995, the Delaware Public Service Commission, authorized recovery of all unrecovered environmental costs incurred by a means of a rider (supplement) to base rates, applicable to all firm service customers. The costs, exclusive of carrying costs, would be recovered through a five-year amortization offset by the associated deferred tax benefit. The deferred tax benefit is the carrying cost savings associated with the timing of the deduction of environmental costs for tax purposes as compared to financial reporting purposes. Each year an environmental surcharge rate is calculated to become effective December 1. The surcharge or rider rate is based on the amortization of expenditures through September of the filing year plus amortization of expenses from previous years. The rider makes it unnecessary to file a rate case every year to recover expenses incurred. Through December 31, 2002, the unamortized balance and amount of environmental costs not included in the rider were $2,243,000 and $24,000, respectively. With the rider mechanism established, it is management's opinion that these costs and any future costs, net of the deferred income tax benefit, will be recoverable in rates.

SALISBURY TOWN GAS LIGHT SITE
In cooperation with the Maryland Department of the Environment ("MDE"), the Company completed assessment of the Salisbury manufactured gas plant site, determining that there was localized ground-water contamination. During 1996, the Company completed construction and began Air Sparging and Soil-Vapor Extraction remediation procedures. Chesapeake has been reporting the remediation and monitoring results to the MDE on an ongoing basis since 1996. In February 2002, the MDE granted permission to permanently decommission the air-sparging/soil-vapor extraction system and abandon all of the monitoring wells on-site and off-site, except one being maintained for continued product monitoring and recovery. This work was completed in March 2002. In November 2002, a letter was submitted to the MDE requesting No Further Action ("NFA"). In December 2002, the MDE recommended that the Company submit work plans to MDE and place deed restrictions on the property as conditions prior to receiving an NFA. Once these items are completed, it is expected that MDE will issue an NFA. The Company is currently preparing the necessary work plans for submittal to MDE.

The estimated cost of the remaining remediation is approximately $21,000 for the final year's operating costs and capital costs to shut down the remediation process at the end of the year. Based on these estimated costs, the Company adjusted both its liability and related regulatory asset to $21,000 on December 31, 2002, to cover the Company's projected remediation costs for this site. Through December 31, 2002, the Company has incurred approximately $2.9 million for remedial actions and environmental studies. Of this amount, approximately $1.1 million of incurred costs have not been recovered through insurance proceeds or received ratemaking treatment. Chesapeake will apply for the recovery of these and any future costs in the next base rate filing with the Maryland Public Service Commission.

WINTER HAVEN COAL GAS SITE
Chesapeake has been working with the Florida Department of Environmental Protection ("FDEP") in assessing a coal gas site in Winter Haven, Florida. In May 1996, the Company filed an Air Sparging and Soil Vapor Extraction Pilot Study Work Plan for the Winter Haven site with the FDEP. The Work Plan described the Company's proposal to undertake an Air Sparging and Soil Vapor Extraction ("AS/SVE") pilot study to evaluate the site. After discussions with the FDEP, the Company filed a modified AS/SVE Pilot Study Work Plan, the description of the scope of work to complete the site assessment activities and a report describing a limited sediment investigation performed in 1997. In December 1998, the FDEP approved the AS/SVE Pilot Study Work Plan, which the Company completed during the third quarter of 1999. Chesapeake has reported the results of the Work Plan to the FDEP for further discussion and review. In February 2001, the Company filed a remedial action plan ("RAP") with the FDEP to address the contamination of the subsurface soil and ground-water in the northern portion of the site. The FDEP approved the RAP on May 4, 2001.

Construction of the AS/SVE system was completed in the fourth quarter of 2002 and the system is now fully operational.

The Company has accrued a liability of $681,000 as of December 31, 2002 for the Florida site. Through December 31, 2002, the Company has incurred approximately $319,000 of environmental costs associated with the Florida site. A regulatory asset of $406,000, representing the uncollected portion of the estimated clean-up costs, had also been recorded.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
None

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

(A) COMMON STOCK PRICE RANGES, COMMON STOCK DIVIDENDS AND SHAREHOLDER INFORMATION:

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "CPK." The high, low and closing prices of Chesapeake's Common Stock and dividends declared per share for each calendar quarter during the years 2002 and 2001 were as follows:

QUARTER ENDED	HIGH	LOW	CLOSE	DIVIDENDS DECLARED PER SHARE
2002				
MARCH 31 . .	$19.8500	$18.8000	$19.2000	$0.2750
JUNE 30. . .	21.9900	18.7500	19.0100	0.2750
SEPTEMBER 30	19.8500	17.3900	18.8600	0.2750
DECEMBER 31.	19.1100	16.5000	18.3000	0.2750
2001				
MARCH 31 . .	$19.1250	$17.3750	$18.2000	$0.2700
JUNE 30. . .	19.5500	17.6000	18.8800	0.2750
SEPTEMBER 30	19.2000	17.7500	18.3500	0.2750
DECEMBER 31.	19.9000	18.1000	19.8000	0.2750

Indentures to the long-term debt of the Company and its subsidiaries contain various restrictions. The most stringent restrictions state that the Company must maintain equity of at least 40 percent of total capitalization and the times interest earned ratio must be at least 2.5. Additionally, under the terms of the 6.64 percent Senior Note, the Company cannot, until the retirement of the Senior Note, pay any dividends after October 31, 2002 which exceed the sub of $10 million plus consolidated net income recognized after January 1, 2003. As of December 31, 2002, the amounts available for future dividends under this covenant are $8.5 million.

At December 31, 2002, there were approximately 2,130 shareholders of record of the Common Stock.

Securities authorized for issuance under equity compensation plans at December 31, 2002 were as follows:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders.	65,748 (1)	$19.772	347,656 (2)
Equity compensation plans not approved by security holders.	30,000 (3)	$18.125	0
Total	95,748	$19.256	347,656

(1) Consists of options to purchase 41,948 shares and stock appreciation rights for 23,800 shares under the 1992 Performance Incentive Plan.

(2) Includes 19,800 shares under the 1995 Directors Stock Compensation Plan and 327,856 shares under the 1992 Performance Incentive Plan. The 327,856 shares excludes 8,385 shares issued in February of 2003 related to 2002 performance. The corresponding expense for the 8,385 shares was recognized in 2002.

(3) In 2000 and 2001, the Company entered into agreements with an investment banker to assist in identifying acquisition candidates. Under the agreements, the Company issued warrants to the investment banker to purchase 15,000 shares of Chesapeake stock in 2001 at a price of $18.25 per share and 15,000 shares in 2000 at a price of $18.00. The warrants are exercisable during a seven-year period after the date granted.

ITEM 6. SELECTED FINANCIAL DATA

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000	1999	1998
OPERATING (IN THOUSANDS OF DOLLARS)					
Revenues					
Natural gas distribution and transmission. .	$ 93,546	$107,937	$ 99,736	$ 75,603	$ 68,770
Propane.	24,522	27,613	31,780	25,199	23,377
Advanced informations systems.	12,764	14,104	12,390	13,531	10,331
Water services	11,731	9,971	7,011	2,593	1,737
Other & eliminations	(333)	(113)	(131)	(14)	(15)
Total revenues	$142,230	$159,512	$150,786	$116,912	$104,200
Gross margin					
Natural gas distribution and transmission. .	$ 40,866	$ 37,355	$ 35,384	$ 32,370	$ 29,677
Propane.	14,451	14,574	16,052	14,129	12,091
Advanced informations systems.	6,064	6,719	5,693	6,575	5,316
Water services	6,920	5,429	3,585	977	734
Other & eliminations	(225)	(111)	(130)	(13)	(14)
Total gross margin	$ 68,076	$ 63,966	$ 60,584	$ 54,038	$ 47,804
Operating income before taxes					
Natural gas distribution and transmission. .	$ 14,987	$ 14,455	$ 12,549	$ 10,306	$ 8,820
Propane.	1,052	913	2,135	2,622	965
Advanced informations systems.	343	517	336	1,470	1,316
Water services	(2,786)	(725)	190	(45)	19
Other & eliminations	236	386	816	496	485
Total operating income before taxes.	$ 13,832	$ 15,546	$ 16,026	$ 14,849	$ 11,605
Net income from continuing operations.	$ 5,645	$ 6,722	$ 7,489	$ 8,271	$ 5,303
ASSETS (in thousands of dollars)					
Gross property, plant and equipment.	$229,128	$216,903	$192,940	$172,088	$152,991
Net property, plant and equipment.	$154,779	$150,256	$131,466	$117,663	$104,266
Total assets	$210,944	$210,335	$210,665	$166,789	$145,029
Capital expenditures	$ 15,040	$ 29,186	$ 23,056	$ 25,917	$ 12,650
CAPITALIZATION (in thousands of dollars)					
Stockholders' equity	$ 66,690	$ 66,850	$ 63,972	$ 60,164	$ 56,356
Long-term debt, net of current maturities. . .	$ 73,408	$ 48,408	$ 50,921	$ 33,777	$ 37,597
Total capital.	$140,098	$115,258	$114,893	$ 93,941	$ 93,953
Current portion of long-term debt.	$ 3,938	$ 2,686	$ 2,665	$ 2,665	$ 520
Short-term debt.	$ 10,900	$ 42,100	$ 25,400	$ 23,000	$ 11,600
Total capitalization and short-term financing.	$154,936	$160,044	$142,958	$119,606	$106,073

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995	1994 (1)	1993 (1)
OPERATING (IN THOUSANDS OF DOLLARS)					
Revenues					
Natural gas distribution and transmission. .	$ 88,108	$ 90,044	$ 79,110	$ 71,781	$ 64,385
Propane.	28,614	36,727	26,806	20,770	16,957
Advanced informations systems.	7,786	7,230	8,862	8,311	6,755
Water services	1,550	1,256	1,239	0	0
Other & eliminations	(182)	(243)	(1,662)	(2,290)	(2,224)
Total revenues	$125,876	$135,014	$114,355	$ 98,572	$ 85,873
Gross margin					
Natural gas distribution and transmission. .	$ 30,086	$ 29,628	$ 29,102	$ 24,008	$ 22,838
Propane.	12,501	17,579	13,235	9,444	8,627
Advanced informations systems.	4,065	4,554	6,687	8,311	6,755
Water services	737	915	1,017	0	0
Other & eliminations	(91)	(230)	(1,524)	(2,204)	(2,186)
Total gross margin	$ 47,298	$ 52,446	$ 48,517	$ 39,559	$ 36,034
Operating income before taxes					
Natural gas distribution and transmission. .	$ 9,240	$ 9,627	$ 10,812	$ 7,820	$ 7,254
Propane.	1,137	2,668	2,128	2,288	1,588
Advanced informations systems.	1,046	1,056	1,061	105	86
Water services	113	72	67	0	0
Other & eliminations	558	560	(34)	(456)	(628)
Total operating income before taxes.	$ 12,094	$ 13,983	$ 14,034	$ 9,757	$ 8,300
Net income from continuing operations.	$ 5,868	$ 7,782	$ 7,696	$ 4,460	$ 3,914
ASSETS (in thousands of dollars)					
Gross property, plant and equipment.	$144,251	$134,001	$120,746	$110,023	$100,330
Net property, plant and equipment.	$ 99,879	$ 94,014	$ 85,055	$ 75,313	$ 69,794
Total assets	$145,719	$155,787	$130,998	$108,271	$100,775
Capital expenditures	$ 13,471	$ 15,399	$ 12,887	$ 10,653	$ 10,064
CAPITALIZATION (in thousands of dollars)					
Stockholders' equity	$ 53,656	$ 50,700	$ 45,587	$ 37,063	$ 34,817
Long-term debt, net of current maturities. . .	$ 38,226	$ 28,984	$ 31,619	$ 24,329	$ 25,682
Total capital.	$ 91,882	$ 79,684	$ 77,206	$ 61,392	$ 60,499
Current portion of long-term debt.	$ 1,051	$ 3,526	$ 1,787	$ 1,348	$ 1,286
Short-term debt.	$ 7,600	$ 12,735	$ 5,400	$ 8,000	$ 8,900
Total capitalization and short-term financing.	$100,533	$ 95,945	$ 84,393	$ 70,740	$ 70,685

(1) The years 1994 and 1993 have not been restated to include the business combinations with Tri-County Gas Company, Inc., Tolan Water Service and Xeron, Inc.

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000	1999	1998
COMMON STOCK DATA AND RATIOS					
Basic earnings per share before change in accounting principle (2) (3)	$ 1.21	$ 1.25	$ 1.43	$ 1.61	$ 1.05
Return on average equity before change in accounting principle	8.5%	10.3%	12.1%	14.2%	9.6%
Common equity / total capital	47.6%	58.0%	55.7%	64.0%	60.0%
Common equity / total capital and short-term financing	43.0%	41.8%	44.7%	50.3%	53.1%
Book value per share	$ 12.04	$ 12.32	$ 12.08	$ 11.60	$ 11.06
Market price:					
High	$ 21.990	$ 19.900	$ 18.875	$ 19.813	$ 20.500
Low	$ 16.500	$ 17.375	$ 16.250	$ 14.875	$ 16.500
Close	$ 18.300	$ 19.800	$ 18.625	$ 18.375	$ 18.313
Average number of shares outstanding	5,489,424	5,367,433	5,249,439	5,144,449	5,060,328
Shares outstanding end of year	5,537,710	5,424,962	5,297,443	5,186,546	5,093,788
Registered common shareholders	2,130	2,171	2,166	2,212	2,271
Cash dividends declared per share	$ 1.10	$ 1.10	$ 1.07	$ 1.03	$ 1.00
Dividend yield (annualized)	6.0%	5.6%	5.7%	5.6%	5.5%
Payout ratio before change in accounting principle	90.9%	88.0%	74.8%	64.0%	95.2%
ADDITIONAL DATA					
Customers					
Natural gas distribution and transmission	45,133	42,741	40,854	39,029	37,128
Propane distribution	34,566	35,530	35,563	35,267	34,113
Volumes					
Natural gas deliveries (in MMCF)	27,935	27,264	30,830	27,383	21,400
Propane distribution (in thousands of gallons)	21,185	23,080	28,469	27,788	25,979
Heating degree-days (Delmarva Peninsula)	4,161	4,368	4,730	4,082	3,704
Propane bulk storage capacity (in thousands of gallons)	2,151	1,958	1,928	1,926	1,890
Total employees	582	580	542	522	456

(2) Earnings per share amounts prior to 1995 represent primary earnings per share.
(3) In 2002, the change in accounting principle reduced earnings per share by $0.35. In 1993, the change increased earnings per share by $0.02.

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995	1994 (1)	1993 (1)
COMMON STOCK DATA AND RATIOS					
Basic earnings per share before change in accounting principle (2) (3)	$ 1.18	$ 1.58	$ 1.59	$ 1.23	$ 1.10
Return on average equity before change in accounting principle	11.3%	16.2%	18.6%	12.4%	11.5%
Common equity / total capital	58.4%	63.6%	59.0%	60.4%	57.5%
Common equity / total capital and short-term financing.	53.4%	52.8%	54.0%	52.4%	49.3%
Book value per share	$ 10.72	$ 10.26	$ 9.38	$ 10.15	$ 9.76
Market price:					
High	$ 21.750	$ 18.000	$ 15.500	$ 15.250	$ 17.500
Low	$ 16.250	$ 15.125	$ 12.250	$ 12.375	$ 13.000
Close	$ 20.500	$ 16.875	$ 14.625	$ 12.750	$ 15.375
Average number of shares outstanding	4,972,086	4,912,136	4,836,430	3,628,056	3,551,932
Shares outstanding end of year	5,004,078	4,939,515	4,860,588	3,653,182	3,575,068
Registered common shareholders	2,178	2,213	2,098	1,721	1,743
Cash dividends declared per share	$ 0.97	$ 0.93	$ 0.90	$ 0.88	$ 0.86
Dividend yield (annualized)	4.7%	5.5%	6.2%	6.9%	5.6%
Payout ratio before change in accounting principle	82.2%	58.9%	56.6%	71.5%	78.2%
ADDITIONAL DATA					
Customers					
Natural gas distribution and transmission	35,797	34,713	33,530	32,346	31,270
Propane distribution	33,123	31,961	31,115	22,180	21,622
Volumes					
Natural gas deliveries (in MMCF)	23,297	24,835	29,260	22,728	19,444
Propane distribution (in thousands of gallons)	26,682	29,975	26,184	18,395	17,250
Heating degree-days (Delmarva Peninsula)	4,430	4,717	4,594	4,398	4,705
Propane bulk storage capacity (in thousands of gallons)	1,866	1,860	1,818	1,230	1,140
Total employees	397	338	335	320	326

(1) The years 1994 and 1993 have not been restated to include the business combinations with Tri-County Gas Company, Inc., Tolan Water Service and Xeron, Inc.
(2) Earnings per share amounts prior to 1995 represent primary earnings per share.
(3) In 2002, the change in accounting principle reduced earnings per share by $0.35. In 1993, the change increased earnings per share by $0.02.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS DESCRIPTION

Chesapeake Utilities Corporation ("Chesapeake" or "the Company") is a diversified utility company engaged in natural gas distribution and transmission, propane distribution and wholesale marketing, advanced information services, water conditioning and treatment and other related businesses.

LIQUIDITY AND CAPITAL RESOURCES

Chesapeake's capital requirements reflect the capital-intensive nature of its business and are principally attributable to the construction program and the retirement of outstanding debt. The Company relies on cash generated from operations and short-term borrowing to meet normal working capital requirements and to temporarily finance capital expenditures. During 2002, net cash provided by operating activities was $24.4 million, cash used by investing activities was $14.1 million and cash used by financing activities was $9.1 million. Cash provided by operations was up $8.9 million over 2001 due primarily to a reduction in the underrecovered purchased gas cost balance of $3.6 million, an increase in accounts payable, partially caused by liabilities for capital improvements totaling $1.9 million, and an increase of $1.4 million in depreciation.

The Company completed a private placement of $30.0 million of long-term debt and drew down the funds on October 31, 2002. The debt has a fixed interest rate of 6.64 percent and is due October 31, 2017. The funds were used to repay short-term borrowing.

As of December 31, 2002 the Board of Directors has authorized the Company to borrow up to $35.0 million of short-term debt from various banks and trust companies. On December 31, 2002, Chesapeake had four unsecured bank lines of credit with three financial institutions, totaling $75.0 million, for short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of its capital expenditures. One of the bank lines, totaling $15.0 million, is committed. The other three lines are subject to the banks' availability of funds. Prior to the issuance of the $30.0 million long-term debt on October 31, 2002, the Board had authorized the Company to borrow up to $55.0 million of short-term debt. The outstanding balances of short-term borrowing at December 31, 2002 and 2001 were $10.9 million and $42.1 million, respectively. In 2002, Chesapeake used funds provided by operations to fund capital expenditures and repay debt. In 2001, Chesapeake used funds provided from operations, short-term borrowing and cash on hand to fund capital expenditures.

During 2002, 2001 and 2000, investing activities totaled approximately $14.1, $29.2 and $21.8 million, respectively. The property, plant and equipment expenditures for 2002 were primarily for natural gas distribution ($8.1 million) and natural gas transmission ($4.0 million). Natural gas distribution utilized funds to improve facilities and expand facilities to serve new customers. Natural gas transmission spending related primarily to expanding its system. Capital expenditures increased in 2001 over 2000 primarily as a result of Eastern Shore Natural Gas expenditures, totaling $16.0 million, related to system expansion. Natural gas distribution also spent approximately $7.2 million in 2001 for expansion of facilities to serve new customers and for improvements of facilities. The purchases of intangibles were related to acquisitions of water companies.

Chesapeake has budgeted $16.5 million for capital expenditures during 2003. This amount includes $12.1 million for natural gas distribution and transmission, $2.3 million for propane distribution and marketing, $237,000 for advanced information services, $1.2 million for water services and $451,000 for other operations. The natural gas distribution and transmission expenditures are for expansion and improvement of facilities. The propane expenditures are to support customer growth and for the replacement of equipment. The advanced information services expenditures are for computer hardware, software and related equipment. Expenditures for water services include expenditures to support customer growth and replace equipment. The other category includes general plant, computer software and hardware. Financing for the 2003 capital expenditure program is expected to be provided from short-term borrowing and cash provided by operating activities. The capital expenditure program is subject to continuous review and modification. Actual capital requirements may vary from the above estimates due to a number of factors, including acquisition opportunities, changing economic conditions, customer growth in existing areas, regulation, new growth opportunities and availability of capital.

Chesapeake has budgeted $202,000 for environmental-related expenditures during 2003 and expects to incur additional expenditures in future years (see Note M to the Consolidated Financial Statements). Management does not expect financing of future environmental-related expenditures to have a material adverse effect on the financial position or capital resources of the Company.

CAPITAL STRUCTURE

As of December 31, 2002, common equity represented 47.6 percent of total permanent capitalization, compared to 58.0 percent in 2001. Including short-term borrowing and the current portion of long-term debt, the equity component of the Company's capitalization would have been 43.0 percent and 41.8 percent, respectively. Chesapeake remains committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access the capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, is intended to ensure that Chesapeake will be able to attract capital from outside sources at a reasonable cost. The Company believes that the achievement of these objectives will provide benefits to customers and creditors, as well as to the Company's investors.

FINANCING ACTIVITIES

During the past two years, the Company has utilized debt and equity financing for the purpose of funding capital expenditures and acquisitions.

As noted above, on October 31, 2002, Chesapeake completed a private placement of $30.0 million of 6.64 percent Senior Notes due October 31, 2017. The Company used the proceeds to repay short-term debt.

In May 2001, Chesapeake issued a note payable of $300,000 at 8.5 percent, due April 6, 2006, in conjunction with a real estate purchase. This note was repaid in full on January 6, 2003. In December 2000, Chesapeake completed a private placement of $20.0 million of 7.83 percent Senior Notes due January 1, 2015. The Company used the proceeds to repay short-term borrowing.

Chesapeake repaid approximately $3.7 million and $2.7 million of long-term debt in 2002 and 2001, respectively. Chesapeake issued common stock in connection with its Automatic Dividend Reinvestment and Stock Purchase Plan in the amounts of 49,782 shares in 2002, 43,101 shares in 2001 and 41,056 shares in 2000. Chesapeake also issued shares of common stock totaling 52,740, 54,921 and 52,093 in 2002, 2001 and 2000, respectively, for matching contributions for the Retirement Savings Plan.

RESULTS OF OPERATIONS

Net income before the change in accounting principle for 2002 was $5.6 million compared to $6.7 million for 2001 and $7.5 million for 2000. Net income, after the change in accounting principle for 2002 was $3.7 million or $0.68 per share. Chesapeake adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" in 2002. This resulted in a non-cash charge for goodwill impairment recorded in the first quarter, as the cumulative effect of a change in accounting principle.

NET INCOME & BASIC EARNINGS PER SHARE SUMMARY

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	INCREASE (DECREASE)	2001	2000	INCREASE (DECREASE)
BEFORE CHANGE IN ACCOUNTING PRINCIPLE						
Net income *.	$ 5,645	$ 6,722	($1,077)	$ 6,722	$ 7,489	($767)
Earnings per share.	$ 1.03	$ 1.25	($0.22)	$ 1.25	$ 1.43	($0.18)
AFTER CHANGE IN ACCOUNTING PRINCIPLE						
Net income *.	$ 3,729	$ 6,722	(2,993)	6,722	$ 7,489	(767)
Earnings per share.	$ 0.68	$ 1.25	($0.57)	$ 1.25	$ 1.43	($0.18)

* Dollars in thousands.

Pre-tax operating income increased for the natural gas and propane segments, despite temperatures in the Delmarva region that were 5 percent warmer than both the 10-year average and 2001. Those increases were more than offset by declines in the advanced information services, water services and other segments. Advanced information services was adversely affected by a slowdown in the information technology services sector. The decline in water services was primarily the result of a goodwill impairment charge and a restructuring charge.

PRE-TAX OPERATING INCOME SUMMARY (IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	INCREASE (DECREASE)	2001	2000	INCREASE (DECREASE)
BUSINESS SEGMENT:						
Natural gas distribution & transmission.	$ 14,987	$ 14,455	$ 532	$ 14,455	$12,549	$ 1,906
Propane	1,052	913	139	913	2,135	(1,222)
Advanced information services	343	517	(174)	517	336	181
Water services.	(2,786)	(725)	(2,061)	(725)	190	(915)
Other & eliminations.	236	386	(150)	386	816	(430)
TOTAL PRE-TAX OPERATING INCOME.	$ 13,832	$ 15,546	($1,714)	$ 15,546	$16,026	($480)

The reduction in earnings in 2001 compared to 2000 was due to declines in the propane segment, water services and other businesses' contribution to earnings, partially offset by increases in natural gas and advanced information services. Propane margins declined due to a 13 percent drop in sales because of warmer temperatures, a reduction in sales to poultry customers and the continuation of competitive pressures in some markets the Company serves on the Delmarva Peninsula. Heating degree-days on the Delmarva Peninsula indicate that temperatures were 8 percent warmer than 2000 and 1 percent warmer than the ten-year average. The margin decrease was partially offset by savings in operating expenses resulting from cost containment measures implemented during 2001. The decrease in water services was due principally to increased overhead related to the development of a management infrastructure and expansion to new locations. The natural gas segment improved over 2000 as a result of enhanced margins in the transmission segment, from a rate increase in Florida and reductions in operating expenses in Delaware and Maryland.

NATURAL GAS DISTRIBUTION AND TRANSMISSION

The natural gas distribution and transmission segment increased pre-tax operating income to $15.0 million for 2002 compared to $14.5 million for 2001, an increase of $532,000.

NATURAL GAS DISTRIBUTION AND TRANSMISSION (IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	INCREASE (DECREASE)	2001	2000	INCREASE (DECREASE)

Revenue	$ 93,546	$ 107,937	($14,391)	$107,937	$99,736	$ 8,201
Cost of gas	52,680	70,582	(17,902)	70,582	64,352	6,230
Gross Margin	40,866	37,355	3,511	37,355	35,384	1,971
Operations & maintenance	16,667	14,730	1,937	14,730	15,312	(582)
Depreciation & amortization	6,429	5,638	791	5,638	5,236	402
Other taxes	2,783	2,532	251	2,532	2,287	245
Pre-tax operating expenses	25,879	22,900	2,979	22,900	22,835	65
TOTAL PRE-TAX OPERATING INCOME	$ 14,987	$ 14,455	$ 532	$ 14,455	$12,549	$ 1,906

Revenue and cost of gas decreased due to lower natural gas commodity costs in 2002 compared to 2001. Commodity cost changes are passed on to the ratepayers through a gas cost recovery or purchased gas cost adjustment in all jurisdictions; therefore, they have no impact on the Company's profitability. Revenue and cost of gas were also down in part because of the unbundling of services that took effect in 2001 for all nonresidential customers of the Florida division and in November 2002 for residential customers. As a result, all Florida customers have switched from sales service, where they purchase both the commodity and transportation service from the Company, to purchasing transportation service only.

Gross margin increased $3.5 million over the same period in 2001 due to increases in the margins for the transmission operation and the Delaware and Florida distribution operations. Transmission margins were up due to the completion of a major system expansion in November of 2001. The Company expects this system expansion to increase margins by approximately $2.2 million per year. A second expansion, completed in November 2002, is expected to increase margins by approximately $500,000 per year. As discussed more fully in the regulatory matters section, the Company's transmission subsidiary, Eastern Shore Natural Gas Company ("Eastern Shore"), reached an agreement with the Federal Energy Regulatory Commission ("FERC") on October 10, 2002. That agreement is expected to lower annual margins by an estimated $456,000. The new rates took effect December 1, 2002. As a result of these two offsetting factors, management expects transmission margins in 2003 to be approximately equal to 2002. Margins in Delaware and Maryland were adversely impacted by temperatures that were 4.7 percent warmer (207 heating degree-days) than 2001 and 5.2 percent (232 heating degree-days) warmer than the 10-year average. Management estimates that on an annual basis, margins will fluctuate by $1,730 for each heating degree-day. This decline was more than offset by residential customer growth of 1,838, or 6.5 percent, and a rate increase in Delaware. Chesapeake estimates that for each residential customer added, an additional $260 per year will be added to earnings before interest, taxes, depreciation and amortization. The margin increases were partially offset by higher operating expenses, primarily administrative and general and depreciation. The increase in depreciation reflects completion of recent capital projects that increased the transmission capacity and various expansion projects in Florida.

Pre-tax operating income increased $1.9 million from 2000 to 2001. The increase in pre-tax operating income was due to increases contributed by the Company's Florida operation and the natural gas transmission subsidiary. The Florida unit's increase was driven by higher margins due to a rate increase implemented in August 2000 and increased margins from the marketing operation, partially due to the expansion of transportation service in Florida. In addition, the transmission subsidiary's margins increased by approximately $1.1 million due to an increase in firm transportation services provided to its customers. The transmission subsidiary increased its capacity to provide firm transportation services by expanding its system. While the margins in Delaware and Maryland were down by more than $700,000 primarily due to warmer weather, cost reduction measures implemented in 2001 enabled the Company to maintain earnings in these two units. The Delaware division also implemented an interim rate increase, subject to refund, on October 1, 2001. Included in the Company's operating expense reduction was a one-time credit adjustment of approximately $280,000 to establish a regulatory asset for other post-retirement benefits that are being collected through the Company's rates on a "pay-as-you-go" basis in Delaware.

PROPANE

Pre-tax operating income for the propane segment increased from $913,000 in 2001 to $1.1 million in 2002. Reductions in operating expenses of $262,000 more than offset a decrease of $123,000 in gross margin.

PROPANE (IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	INCREASE (DECREASE)	2001	2000	INCREASE (DECREASE)
Revenue	$ 24,522	$ 27,613	($3,091)	$ 27,613	$31,780	($4,167)
Cost of sales	10,071	13,039	(2,968)	13,039	15,728	(2,689)

Gross Margin.	14,451	14,574	(123)	14,574	16,052	(1,478)
Operations & maintenance.	11,053	11,459	(406)	11,459	11,823	(364)
Depreciation & amortization	1,603	1,465	138	1,465	1,446	19
Other taxes	743	737	6	737	648	89
Pre-tax operating expenses.	13,399	13,661	(262)	13,661	13,917	(256)
TOTAL PRE-TAX OPERATING INCOME.	$ 1,052	$ 913	$ 139	$ 913	$ 2,135	($1,222)

A retroactive reclassification was made in the third quarter due to a consensus that was reached by the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") in June 2002 to revise Issue No. EITF 02-03 and disallow gross reporting of revenue and cost of sales for energy trading contracts. The Company's propane wholesale marketing operation previously used the gross method for certain energy trading contracts. The requirement that all energy trading contracts be reported net reduced both the revenue and cost of sales by $96.5 million in 2002 and $170.8 million in 2001. There was no impact on the gross margin, net income, earnings per share or the financial position of the Company. Propane distribution revenues and costs were lower by $6.5 million and $7.6 million, respectively, due to a drop in propane commodity prices and volume decreases. Both increases and decreases in commodity costs, are generally passed on to the distribution customers subject to competitive market conditions.

Propane wholesale marketing margins declined by $1.1 million in 2002 compared to 2001 and were partially offset by a reduction of $258,000 in operating expenses. The 2001 results reflected increased opportunities due to the extreme price volatility in the propane wholesale market. The same level of price fluctuations was not experienced in 2002. Additionally, there was a decrease in the number of suitable trading partners due to a decision by some companies to exit energy trading activities and the decreased credit-worthiness of other parties. The 2002 results reflected increased margins of approximately $650,000 that resulted from a bankrupt vendor defaulting on supply contracts during the first quarter of 2002. The supply was replaced by purchasing from different vendors at a lower cost than the original contract. The propane wholesale marketing operation remains profitable, despite the decline in earnings.

The Delmarva distribution operations experienced an increase of $624,000 in gross margin. Although volumes sold were down 8 percent, higher margins per gallon and stable wholesale propane prices resulted in increased margin dollars. Volumes were negatively impacted by temperatures that were 4.7 percent warmer than 2001 (207 heating degree-days) and 5.2 percent warmer than the 10-year average (232 heating degree-days), increased competition and lower volume sales to the poultry industry. Management estimates that on an annual basis, margins increase or decrease by $1,566 for each heating degree-day colder or warmer than the 10-year average. Operating expenses decreased by $249,000 resulting from cost containment efforts that began in April 2001 and remain in effect. These efforts have reduced customer accounting, sales and marketing costs. Other costs, such as delivery expenses, decreased due to the lower volumes sold. The pre-tax operating income of the Florida propane operation increased by $195,000 in 2002. Margins increased $441,000, but were partially offset by an increase if $246,000 in operating expenses.

During 2001, the Company's gross margins on the Delmarva Peninsula declined by approximately $1.7 million compared to 2000, due to a 13 percent decline in bulk and metered sales volumes. Cost containment measures taken during the second quarter of 2001 generated a $575,000 reduction in operations and maintenance expenses. However, this was not enough to offset the reduced margins on the lower sales volumes. The decline in margins was due to warmer temperatures, a reduction in sales to poultry customers and the continuation of competitive pressures in some of the markets the Company serves on the Peninsula. The decline in sales to poultry customers comprised 32 percent of the decline in margins. The decreases in volume were exacerbated by the decline in wholesale prices over the course of 2001. Declines in wholesale prices, which are generally good for the long-term, negatively impact the Company in the short-term by devaluing its inventories and fixed price supply contracts. During 2001, the Company wrote down inventory totaling $850,000 due to wholesale price declines. Increased competition also affected volumes sold in 2001. In recent years, several independent dealers entered the propane business with pricing strategies designed to acquire market share. The Company's position as a top distributor in several of the markets that it serves makes it particularly vulnerable to these tactics.

In 2000, the Company started three propane distribution operations in Florida. The operations contributed $238,000 to gross margin in 2001. Although the margins contributed by the propane marketing operation declined by four percent in 2001 compared to 2000, they were still well above the earnings target established by the Company.

ADVANCED INFORMATION SERVICES

The advanced information services segment provides consulting, custom programming, training, development tools and website development for national and international clients. The advanced information services business earned pre-tax operating income of $343,000 in 2002 compared to income of $517,000 for 2001. The decrease is the result of decreased revenue partially offset by decreased operating expenses.

ADVANCED INFORMATION SERVICES (IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	INCREASE (DECREASE)	2001	2000	INCREASE (DECREASE)
Revenue	$ 12,764	$ 14,104	($1,340)	$ 14,104	$12,390	$ 1,714
Cost of sales	6,700	7,385	(685)	7,385	6,697	688
Gross Margin.	6,064	6,719	(655)	6,719	5,693	1,026
Operations & maintenance.	4,940	5,361	(421)	5,361	4,575	786
Depreciation & amortization	208	256	(48)	256	280	(24)
Other taxes	573	585	(12)	585	502	83
Pre-tax operating expenses.	5,721	6,202	(481)	6,202	5,357	845
TOTAL PRE-TAX OPERATING INCOME.	$ 343	$ 517	($174)	$ 517	$ 336	$ 181

This segment was adversely affected by the nation's economic slowdown as discretionary consulting projects have been postponed or cancelled. This was partially offset by a reduction in operating expenses, principally sales and marketing.

In 2001, the segment's contribution to pre-tax operating income increased $181,000 over the depressed levels in 2000, to $517,000. The $1.7 million increase in revenue was partially offset by the increase in the cost of providing the services and the cost of the marketing program implemented during the first half of the year. Marketing costs during 2001 were approximately $400,000 over the normal levels the Company expects. WebProEX sales and related consulting contributed approximately $450,000 of the increase in revenues during 2001.

WATER SERVICES

Water services experienced a pre-tax operating loss of $2.8 million for 2002 compared to a loss of $725,000 for 2001. The pre-tax operating loss is primarily due to a $1.5 million goodwill impairment charge and a restructuring charge of $138,000. The results for 2002 include a full year of operations for the four water businesses that were purchased between April and July of 2001.

WATER SERVICES (IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	INCREASE (DECREASE)	2001	2000	INCREASE (DECREASE)
Revenue	$ 11,731	$ 9,971	$ 1,760	$ 9,971	$ 7,011	$ 2,960
Cost of sales	4,811	4,542	269	4,542	3,426	1,116
Gross Margin.	6,920	5,429	1,491	5,429	3,585	1,844
Operations & maintenance.	6,938	5,072	1,866	5,072	2,827	2,245
Depreciation & amortization	843	742	101	742	375	367
Goodwill impairment	1,474	0	1,474	0	0	0
Other taxes	451	340	111	340	193	147
Pre-tax operating expenses.	9,706	6,154	3,552	6,154	3,395	2,759
TOTAL PRE-TAX OPERATING (LOSS) INCOME .	($2,786)	($725)	($2,061)	($725)	$ 190	($915)

The increases in all categories of revenue and expenses reflect the acquisition of the new water businesses. As noted above, pre-tax operating losses increased $2.1 million primarily due to a non-cash charge of $1.5 million for goodwill impairment. Statement of Financial Accounting Standards ("SFAS") No. 142 requires an annual assessment of goodwill for possible impairment. The Company's assessment performed in December indicated the charge was necessary. At December 31, 2002, the balance of goodwill related to the water services business was reduced to $195,000. Results for 2002 were also affected by increased expenses associated with the water corporate infrastructure. In the fourth quarter of 2002, a charge of $138,000 for restructuring costs and penalties associated with closing a water management office were incurred. This action was taken to reduce future overhead costs associated with the water services business.

Water services' contribution to pre-tax operating income declined by $915,000 in 2001 compared to 2000. Approximately $574,000 of the decline is due to the cost of establishing a corporate infrastructure for the group. In addition, the Michigan unit's performance declined by $218,000 (net of corporate charges). The decrease resulted from a decline in sales and from an increase in depreciation, primarily related to changing out rental equipment. Finally, the two companies acquired in Florida during 2001 experienced a pre-tax loss of $177,000 (net of corporate charges) during 2001. Transition costs were incurred after the acquisition, primarily the relocation of offices and related expenses.

OTHER OPERATIONS
Other operations consists of subsidiaries that own real estate leased to other Chesapeake subsidiaries.

OTHER OPERATIONS (IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	INCREASE (DECREASE)	2001	2000	INCREASE (DECREASE)
Revenue	$ 717	$ 783	($66)	$ 783	$ 841	($58)
Cost of sales	0	0	0	0	0	0
Gross Margin.	717	783	(66)	783	841	(58)
Operations & maintenance.	84	108	(24)	108	165	(57)
Depreciation & amortization	233	233	0	233	127	106
Other taxes	57	57	0	57	55	2
Pre-tax operating expenses.	374	398	(24)	398	347	51
TOTAL PRE-TAX OPERATING INCOME.	$ 343	$ 385	($42)	$ 385	$ 494	($109)

INCOME TAXES
Operating income taxes were lower due to the decrease in operating income and a lowering of the effective federal income tax rate from 35 percent to 34 percent in 2002. Additionally, during 2002 the Company benefited from a change in the tax law that allows tax deductions for dividends paid on Company stock held in Employee Stock Ownership Plans ("ESOP").

Operating income taxes were lower in 2001 than 2000, due to lower operating income and higher interest expense, partially offset by the utilization of a higher effective tax rate in 2001. In 2001, the Company accrued income taxes at a federal tax rate of 35 percent as opposed to a 34 percent rate in 2000.

OTHER INCOME
Non-operating income, net of tax, was $334,000, $483,000 and $361,000 for the years 2002, 2001 and 2000, respectively. This includes interest income, earned primarily on regulatory assets and gains from the sale of plant assets.

INTEREST EXPENSE
Interest expense for 2002 decreased approximately $222,000, or 4 percent, over the same period in 2001. The decrease was due primarily to a reduction in the average interest rate for short-term borrowing from 4.43 percent on an average balance of $26.9 million in 2001 to 2.35 percent on an average balance of $29.4 million for the same period in 2002. Interest on long-term debt partially offset the short-term savings, due to an increase in the average balance outstanding from $52.4 million in 2001 to $57.1 million in 2002. However, the average long-term interest rate declined from 7.64 percent to 7.19 percent, offsetting a portion of the increase related to higher balances.

Interest expense for 2001 increased over 2000 due to a higher level of long-term debt, partially offset by lower interest rates on short-term borrowing.

CRITICAL ACCOUNTING POLICIES
Chesapeake's financial condition and results of operations are impacted by the accounting methods, assumptions and estimates used in critical accounting policies. However, because most of Chesapeake's businesses are regulated, the accounting methods used by Chesapeake must comply with the requirements of the regulatory bodies; therefore, the choices are limited. Management believes that the following policies require significant estimates or other judgments of matters that are inherently uncertain. These policies have been discussed with the Audit Committee of Chesapeake.

REGULATORY ASSETS AND LIABILITIES
Chesapeake records certain assets and liabilities in accordance with SFAS No. 71 "Accounting for the Effects of Certain Types of Regulation." Costs are deferred when there is a probable expectation that they will be recovered in future revenues as a result of the regulatory process. At December 31, 2002. Chesapeake had recorded regulatory assets of $8.9 million, including $3.0 million for underrecovered purchased gas costs and $5.1 million for environmental costs. There is also a liability of $2.8 million for environmental costs. If the Company were required to terminate application of SFAS No. 71, all such deferred amounts would be recognized in the income statement. This would result in a charge to earnings, net of applicable income taxes, that could be material.

GOODWILL IMPAIRMENT

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", Chesapeake no longer amortized goodwill during 2002. Instead, goodwill was tested for impairment upon adoption of SFAS No. 142 on January 1, 2002, and again at the end of the year. These tests are based on subjective measurements, including discounted cash flows of expected future operating results and market valuations of similar businesses. Those tests indicated that the goodwill associated with the water business was impaired and charges totaling $4.7 million (pre-tax) were recorded. The remaining water goodwill balance was $195,000 at December 31, 2002.

ENVIRONMENTAL

As more fully described in Note M to the Financial Statements, Chesapeake is currently participating in the investigation, assessment or remediation of three former gas manufacturing plant sites. Amounts have been recorded as environmental liabilities and associated environmental regulatory assets based on estimates of future costs provided by independent consultants. There is uncertainty in these amounts because the Environmental Protection Agency ("EPA") or state authority may not have selected the final remediation methods. Additionally, there is uncertainty due to the outcome of legal remedies sought from other potentially responsible parties. At December 31, 2002, Chesapeake had recorded environmental regulatory assets of $5.1 million and a liability for environmental costs of $2.8 million.

PROPANE WHOLESALE MARKETING CONTRACTS

Chesapeake's propane wholesale marketing operation enters into forward and futures contracts that are considered derivatives under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." In accordance with the pronouncement, open positions are marked-to-market prices at the end of each reporting period and unrealized gains or losses are recorded in the Statement of Income. The contracts all mature within one year, and are almost exclusively for propane commodities with delivery points of Mt. Belvieu, Texas and Hattiesburg, Mississippi. Management estimates the market valuation based on reference to exchange-traded futures prices, historical differentials and actual trading activity at the end of the reporting period. At December 31, 2002, there was an unrealized gain of $630,000 compared to an unrealized loss of $75,000 at December 31, 2001.

OPERATING REVENUES

Revenues for the natural gas distribution operations of the Company are based on rates approved by the various public service commissions. The natural gas transmission operation revenues are based on rates approved by FERC. Customers' base rates may not be changed without formal approval by these commissions. However, the regulatory authorities have granted the Company's regulated natural gas distribution operations the ability to negotiate rates with customers that have competitive alternatives using approved methodologies. In addition, the natural gas transmission operations can negotiate rates above or below the FERC approved tariff rates. With the exception of the Company's Florida division, the Company recognizes revenues from meters read on a monthly cycle basis. This practice results in unbilled and unrecorded revenue from the cycle date through the end of the month. The Florida division recognizes revenues based on services rendered and records an amount for gas delivered but not yet billed.

Chesapeake's natural gas distribution operations each have a gas cost recovery mechanism that provides for the adjustment of rates charged to customers as gas costs fluctuate. These amounts are collected or refunded through adjustments to rates in subsequent periods.

The Company charges flexible rates to the natural gas distribution's industrial interruptible customers to make them competitive with alternative types of fuel. Based on pricing, these customers can choose natural gas or alternative types of supply. Neither the Company nor the interruptible customer is contractually obligated to deliver or receive natural gas.

The propane distribution operation records revenues on either an "as delivered" or a "metered" basis depending on the customer type. The propane marketing operation records trading activity net, on a mark-to-market basis for open contracts.

The advanced information services, water services and other segments record revenue in the period the products are delivered and/or services are rendered.

REGULATORY ACTIVITIES

The Company's natural gas distribution operations are subject to regulation by the Delaware, Maryland and Florida Public Service Commissions. The natural gas transmission operation is subject to regulation by the FERC.

On August 2, 2001, the Delaware division filed a general rate increase application with the Delaware Public Service Commission ("PSC"). Interim rates, subject to refund, went into effect on October 1, 2001. The PSC approved a settlement agreement for Phase I of the Rate Increase Application in April 2002. Phase I should result in an increase in rates of approximately $380,000 per year. Phase II of the filing was approved by the Delaware PSC in November 2002. It should result in an additional increase in rates of approximately $90,000. Phase II also reduces the Company's sensitivity to weather by changing the minimum customer charge and the margin sharing arrangement for interruptible sales, off system sales and capacity release income.

In 1999, the Company requested and received approval from the Delaware PSC to annually adjust its interruptible margin sharing mechanism to address the level of recovery of fixed distribution costs from residential and small commercial heating customers. The annual period ran from August 1 to July 31. During 2000, the weather for the period ending August 31, 2000, was warmer than the threshold, resulting in a reduction in margin sharing. This reduction resulted in a $417,000 increase in margin for 2000. This mechanism automatically terminated when the Delaware division filed a general rate increase application on August 2, 2001. There was no impact on margins in 2001 due to this mechanism.

On October 31, 2001, Eastern Shore filed a rate change with the FERC pursuant to the requirements of the Stipulation and Agreement dated August 1, 1997. Following settlement conferences held in May 2002, the parties reached a settlement in principle on or about May 23, 2002, to resolve all issues related to its rate case.

The Offer of Settlement and the Stipulation and Agreement were finalized and filed with the FERC on August 2, 2002. The agreement provides that Eastern Shore's rates will be based on a cost of service of $12.9 million per year. Cost savings estimated at $456,000 will be passed on to firm transportation customers. Initial comments supporting the settlement agreement were filed by the FERC staff and by Eastern Shore. No adverse comments were filed. The Presiding Judge certified the Offer of Settlement to the FERC as uncontested on August 27, 2002. On October 10, 2002, the FERC issued an Order approving the Offer of Settlement and the Stipulation and Agreement. Settlement rates went into effect on December 1, 2002.

During October 2002, Eastern Shore filed for recovery of gas supply realignment costs associated with the implementation of FERC Order No. 636. The costs totaled $196,000 (including interest). It is uncertain at this time when the FERC will consider this matter or the ultimate outcome.

On March 29, 2002, the Florida division filed tariff revisions with the Florida PSC to complete the unbundling process by requiring all customers, including residential, to migrate to transportation service and authorized the Florida division to exit the merchant function. Transportation services were already available to all nonresidential customers. On November 5, 2002, the Florida PSC approved the Company's request for the first phase of the unbundling process as a pilot program for a minimum two-year period. The Company is implementing the program immediately and must submit an interim report for review by the Florida PSC after one year. As a part of this pilot program, the Company expects to submit several filings over the first six months of 2003 to address transition costs, the disposition of the unrecovered gas cost balances, the implementation of the operational balancing account and the level of base rates.

In January 2000, the Company filed a request for approval of a rate increase with the Florida PSC. Interim rates, subject to refund, went into effect in August 2000. In November 2000, an order was issued approving the rate increase, which became effective in early December 2000.

During the 1999 Maryland General Assembly legislative session, taxation of electric and gas utilities was changed by the passage of The Electric and Gas Utility Tax Reform Act ("Tax Act"). Effective January 1, 2000, the Tax Act altered utility taxation to account for the restructuring of the electric and gas industries by either repealing and/or amending the existing Public Service Company Franchise Tax, Corporate Income Tax and Property Tax. Prior to this Tax Act, the State of Maryland allowed utilities a credit to their income tax liability for Maryland gross receipts taxes paid during the year. The modification eliminates the gross receipts tax credit. The Company requested and received approval from the Maryland Public Service Commission to increase its natural gas delivery service rates by $83,000 on an annual basis to recover the estimated impact of the Tax Act.

ENVIRONMENTAL MATTERS

The Company continues to work with federal and state environmental agencies to assess the environmental impact and explore corrective action at four environmental sites (see Note M to the Consolidated Financial Statements). The Company believes that future costs associated with these sites will be recoverable in rates or through sharing arrangements with, or contributions by, other responsible parties.

MARKET RISK

Market risk represents the potential loss arising from adverse changes in market rates and prices. Long-term debt is subject to potential losses based on the change in interest rates. The Company's long-term debt consists of first mortgage bonds, senior notes and convertible debentures (see Note H to the Consolidated Financial Statements for annual maturities of consolidated long-term debt). All of Chesapeake's long-term debt is fixed-rate debt and was not entered into for trading purposes. The carrying value of the Company's long-term debt was $77.3 million at December 31, 2002, as compared to a fair value of $88.0 million, based mainly on current market prices or discounted cash flows using current rates for similar issues with similar terms and remaining maturities. The Company is exposed to changes in interest rates as a result of financing through its issuance of fixed-rate long-term debt. The Company evaluates whether to refinance existing debt or permanently finance existing short-term borrowing based in part on the fluctuation in interest rates.

The Company's propane distribution business is exposed to market risk as a result of propane storage activities and entering into fixed price contracts for supply. The Company can store up to approximately four million gallons of propane (including leased storage) during the winter season to meet its customers' peak requirements and to serve metered customers. Decreases in the wholesale price of propane may cause the value of stored propane to decline.

The propane marketing operation is a party to natural gas liquids ("NGL") forward contracts, primarily propane contracts, with various third parties. These contracts require that the propane marketing operation purchase or sell NGL at a fixed price at fixed future dates. At expiration, the contracts are settled by the delivery of NGL to the Company or the counter party or booking out the transaction (booking out is a procedure for financially settling a contract in lieu of the physical delivery of energy). The wholesale propane marketing operation also enters into futures contracts that are traded on the New York Mercantile Exchange. In certain cases, the futures contracts are settled by the payment of a net amount equal to the difference between the current market price of the futures contract and the original contract price.

The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane marketing operation is subject to commodity price risk on its open positions to the extent that market prices for NGL deviate from fixed contract settlement amounts. Market risk associated with the trading of futures and forward contracts are monitored daily for compliance with Chesapeake's Risk Management Policy, which includes volumetric limits for open positions. To manage exposures to changing market prices, open positions are marked up or down to market prices and reviewed by oversight officials on a daily basis. Additionally, the Risk Management Committee reviews periodic reports on market and credit risk, approves any exceptions to the Risk Management Policy (within the limits established by the Board of Directors) and authorizes the use of any new types of contracts. Quantitative information on the forward and futures contracts at December 31, 2002 and 2001 is shown below.

AT DECEMBER 31, 2002	QUANTITY IN GALLONS	ESTIMATED MARKET PRICES	WEIGHTED AVERAGE CONTRACT PRICES
FORWARD CONTRACTS			
Sale	7,291,200	$ 0.5200 - $0.5700	$ 0.5349
Purchase	4,515,000	$ 0.5200 - $0.5700	$ 0.5001
FUTURES CONTRACTS			
Sale	1,764,000	$ 0.5200 - $0.5400	$ 0.5449

Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expire in 2003.

AT DECEMBER 31, 2001	QUANTITY IN GALLONS	ESTIMATED MARKET PRICES	WEIGHTED AVERAGE CONTRACT PRICES
FORWARD CONTRACTS			
Sale	11,877,600	$ 0.3275 - $0.3375	$ 0.3876
Purchase	9,660,000	$ 0.3275 - $0.3375	$ 0.4032
FUTURES CONTRACTS			
Sale	840,000	$ 0.3275 - $0.3300	$ 0.3325

Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expired in 2002.

The Company's natural gas distribution operations have entered into agreements with natural gas suppliers to purchase natural gas for resale to their customers. Purchases under these contracts are considered "normal purchases and sales" under SFAS No. 133 and are not marked-to-market.

COMPETITION

The Company's natural gas operations compete with other forms of energy including electricity, oil and propane. The principal competitive factors are price, and to a lesser extent, accessibility. The Company's natural gas distribution operations have several large volume industrial customers that have the capacity to use fuel oil as an alternative to natural gas. When oil prices decline, these interruptible customers convert to oil to satisfy their fuel requirements. Lower levels in interruptible sales occur when oil prices are lower relative to the price of natural gas. Oil prices, as well as the prices of electricity and other fuels are subject to fluctuation for a variety of reasons; therefore, future competitive conditions are not predictable. To address this uncertainty, the Company uses flexible pricing arrangements on both the supply and sales side of its business to maximize sales volumes. As a result of the transmission business' conversion to open access, this business has shifted from providing competitive sales service to providing transportation and contract storage services.

The Company's natural gas distribution operations located in Maryland, Delaware and Florida offer transportation services to certain industrial customers. In 2001, the Florida operation extended transportation service to commercial customers and, in 2002, to residential customers. With transportation service now available on the Company's distribution systems, the Company is competing with third party suppliers to sell gas to industrial customers. The Company's competitors include the interstate transmission company if the distribution customer is located close enough to the transmission company's pipeline to make a connection economically feasible. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the distribution operations in this manner. In certain situations, the distribution operations may adjust services and rates for these customers to retain their business. The Company expects to continue to expand the availability of transportation service to additional classes of distribution customers in the future. The Company established a natural gas sales and supply operation in Florida in 1994 to compete for customers eligible for transportation services.

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price. Competitors include several large national propane distribution companies, as well as an increasing number of local suppliers. Some of these competitors have pricing strategies designed to acquire market share.

The Company's advanced information services segment faces competition from a number of competitors, some of which have greater resources available to them than those of the Company. This segment competes on the basis of technological expertise, reputation and price.

The water services segment faces competition from a variety of national and local suppliers of water conditioning and treatment services and bottled water.

INFLATION

Inflation affects the cost of labor, products and services required for operation, maintenance and capital improvements. While the impact of inflation has remained low in recent years, natural gas and propane prices are subject to rapid fluctuations. Fluctuations in natural gas prices are passed on to customers through the gas cost recovery mechanism in the Company's tariffs. To help cope with the effects of inflation on its capital investments and returns, the Company seeks rate relief from regulatory commissions for regulated operations while monitoring the returns of its unregulated business operations. To compensate for fluctuations in propane gas prices, Chesapeake adjusts its propane selling prices to the extent allowed by the market.

RECENT PRONOUNCEMENTS

See Note A to the Consolidated Financial Statements for information on recent accounting and authoritative pronouncements.

CAUTIONARY STATEMENT

Chesapeake has made statements in this report that are considered to be forward-looking statements. These statements are not matters of historical fact. Sometimes they contain words such as "believes," "expects," "intends," "plans," "will," or "may," and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with the Company's propane marketing operation, competition and other matters. It is important to understand that these forward-looking statements are not guarantees but are subject to certain risks and uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things:

- the temperature sensitivity of the natural gas and propane businesses;

- the effect of spot and futures market prices of natural gas and propane on the Company's distribution, wholesale marketing and energy trading businesses;

- the effects of competition on the Company's unregulated and regulated businesses;

- the effect of changes in federal, state or local regulatory and tax requirements, including deregulation;

- the ability of the Company's new and planned facilities and acquisitions to generate expected revenues; and

- the Company's ability to obtain the rate relief and cost recovery requested from utility regulators and the timing of the requested regulatory actions.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.
Information concerning quantitative and qualitative disclosure about market risk is included in Item 7 under the heading "Management's Discussion and Analysis - Market Risk."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders of Chesapeake Utilities Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) of this Form 10-K present fairly, in all material respects, the financial position of Chesapeake Utilities Corporation and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a)(2) of this Form 10-K presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with accounting standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note F to the Consolidated Financial Statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," in 2002.

/S/PRICEWATERHOUSECOOPERS LLP
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PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 20, 2003

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000
OPERATING REVENUES	$142,229,535	$159,512,240	$150,785,986
COST OF SALES	74,153,193	95,546,560	90,201,513
GROSS MARGIN	68,076,342	63,965,680	60,584,473
OPERATING EXPENSES			
Operations	36,881,267	34,055,855	31,862,975
Maintenance	1,969,562	1,778,760	1,868,260
Depreciation and amortization	9,311,483	8,333,482	7,142,611
Goodwill impairment	1,474,000	0	0
Other taxes	4,607,660	4,251,825	3,684,656
Income taxes	3,462,692	4,027,543	4,387,925
Total operating expenses	57,706,664	52,447,465	48,946,427
OPERATING INCOME	10,369,678	11,518,215	11,638,046
OTHER INCOME			
Interest income	238,233	456,240	220,462
Other income	282,743	251,491	248,748
Income taxes	(187,462)	(224,731)	(108,667)
Total other income	333,514	483,000	360,543
INCOME BEFORE INTEREST CHARGES	10,703,192	12,001,215	11,998,589
INTEREST CHARGES			
Interest on long-term debt	4,103,189	3,998,264	2,628,781
Interest on short-term borrowing	698,578	1,215,528	1,699,402
Amortization of debt expense	89,387	101,183	111,122
Other	166,885	(35,297)	70,083
Total interest charges	5,058,039	5,279,678	4,509,388
Income Before Cumulative Effect of Change in Accounting Principle	5,645,153	6,721,537	7,489,201
Cumulative Effect of Change in Accounting Principle, net of tax	(1,916,000)	0	0
NET INCOME	$ 3,729,153	$ 6,721,537	$ 7,489,201
EARNINGS PER SHARE OF COMMON STOCK:			
Basic			
Before efffect of change in accounting principle	$ 1.03	$ 1.25	$ 1.43
Effect of change in accounting principle	(0.35)	0.00	0.00
Net Income	$ 0.68	$ 1.25	$ 1.43
Diluted			
Before efffect of change in accounting principle	$ 1.03	$ 1.24	$ 1.40
Effect of change in accounting principle	(0.35)	0.00	0.00
Net Income	$ 0.68	$ 1.24	$ 1.40

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEETS

ASSETS

AT DECEMBER 31,	2002	2001
PROPERTY, PLANT AND EQUIPMENT		
Natural gas distribution and transmission.	$179,487,574	$168,436,347
Propane.	34,479,798	34,695,862
Advanced information services.	1,475,060	1,521,144
Water services	4,619,703	3,344,751
Other plant.	9,065,440	8,904,691
Total property, plant and equipment.	229,127,575	216,902,795
Less: Accumulated depreciation and amortization	(74,348,909)	(66,646,944)
Net property, plant and equipment.	154,778,666	150,255,851
INVESTMENTS.	362,855	517,901
CURRENT ASSETS		
Cash and cash equivalents.	2,458,276	1,188,335
Accounts receivable (less allowance for uncollectibles of $659,628 and $621,516, respectively)	24,045,853	21,266,309
Materials and supplies, at average cost.	995,165	1,106,995
Merchandise inventory, at FIFO	1,193,585	1,610,786
Propane inventory, at average cost	4,028,878	2,518,871
Storage gas prepayments.	3,033,772	4,326,416
Underrecovered purchased gas costs	2,968,931	6,519,754
Income taxes receivable.	488,339	675,504
Deferred income taxes receivable	417,665	0
Prepaid expenses	2,833,314	1,932,245
Other current assets	755,683	276,781
Total current assets	43,219,461	41,421,996
DEFERRED CHARGES AND OTHER ASSETS		
Environmental regulatory assets.	2,527,251	2,677,010
Environmental expenditures	2,557,406	3,189,156
Goodwill, net.	869,519	5,543,519
Other intangible assets, net	1,927,622	2,180,764
Other deferred charges	4,701,394	4,548,829
Total deferred charges and other assets.	12,583,192	18,139,278
TOTAL ASSETS	$210,944,174	$210,335,026

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

AT DECEMBER 31,	2002	2001
CAPITALIZATION		
Stockholders' equity		
Common Stock, par value $.4867 per share; (authorized 12,000,000 shares; issued and outstanding 5,537,710 and 5,424,962 shares, for 2002 and 2001, respectively)	$ 2,694,935	$ 2,640,060
Additional paid-in capital	31,756,983	29,653,992
Retained earnings	32,238,510	34,555,560
Total stockholders' equity	66,690,428	66,849,612
Long-term debt, net of current maturities	73,407,684	48,408,596
Total capitalization	140,098,112	115,258,208
CURRENT LIABILITIES		
Current portion of long-term debt	3,938,006	2,686,145
Short-term borrowing	10,900,000	42,100,000
Accounts payable	21,141,996	14,551,621
Refunds payable to customers	497,842	971,575
Customer deposits	2,007,983	1,730,354
Accrued interest	699,831	1,758,401
Dividends payable	1,521,982	1,491,832
Deferred income taxes payable	0	848,271
Accrued compensation	1,777,544	1,867,743
Other accrued liabilities	2,052,442	2,006,140
Total current liabilities	44,537,626	70,012,082
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes	17,263,501	15,732,842
Deferred income tax credits	547,541	602,357
Environmental liability	2,802,424	3,199,733
Accrued pension costs	1,619,456	1,595,650
Other liabilities	4,075,514	3,934,154
Total deferred credits and other liabilities	26,308,436	25,064,736
COMMITMENTS AND CONTINGENCIES (NOTES M AND N)		
TOTAL CAPITALIZATION AND LIABILITIES	$210,944,174	$210,335,026

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000
OPERATING ACTIVITIES			
Net income	$ 3,729,153	$ 6,721,537	$ 7,489,201
Adjustments to reconcile net income to net operating cash:			
Goodwill impairment	4,674,000	0	0
Depreciation and amortization	9,311,483	8,333,482	7,142,611
Depreciation included in other costs	1,111,662	659,576	789,516
Deferred income taxes, net	264,723	508,813	2,922,815
Mark-to-market adjustments	(704,906)	906,551	(689,032)
Employee benefits and compensation	188,616	193,777	297,165
Other, net	34,570	18,298	(759,742)
Changes in assets and liabilities:			
Accounts receivable, net	(2,779,544)	16,549,829	(16,745,492)
Inventories, storage gas and materials	311,668	1,117,052	(3,307,421)
Prepaid expenses and other current assets	(196,163)	83,031	217,126
Other deferred charges	(347,671)	(1,725,090)	95,657
Accounts payable, net	6,590,375	(19,103,097)	16,789,600
Refunds payable to customers	(473,733)	(43,553)	235,620
Accrued income taxes	187,165	484,257	(1,085,989)
Accrued interest	(1,058,570)	1,163,226	13,526
Over (under) recovered purchased gas costs	3,550,823	828,533	(6,111,373)
Other	(4,550)	(1,245,624)	1,072,842
Net cash provided by operating activities	24,389,101	15,450,598	8,366,630
INVESTING ACTIVITIES			
Property, plant and equipment expenditures, net	(14,705,244)	(27,414,426)	(21,150,059)
Purchase of intangibles	12,427	(2,208,700)	(619,359)
Environmental recoveries, net of expenditures	631,750	437,319	(51,587)
Net cash used by investing activities	(14,061,067)	(29,185,807)	(21,821,005)
FINANCING ACTIVITIES			
Common stock dividends, net of amounts reinvested of $693,583, $609,793 & $520,712 in 2002, 2001 & 2000, respectively	(5,322,195)	(5,216,044)	(5,022,313)
Issuance of stock:			
Dividend Reinvestment Plan optional cash	266,638	191,765	197,797
Retirement Savings Plan	1,011,515	1,023,919	916,159
Net (repayments) borrowing under line of credit agreements	(31,200,000)	16,700,000	2,400,000
Proceeds from issuance of long-term debt	29,918,850	300,000	19,887,194
Repayment of long-term debt	(3,732,901)	(2,682,412)	(2,675,319)
Net cash (used) provided by financing activities	(9,058,093)	10,317,228	15,703,518
NET INCRASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,269,941	(3,417,981)	2,249,143
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,188,335	4,606,316	2,357,173
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,458,276	$ 1,188,335	$ 4,606,316
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	$ 6,255,193	$ 4,128,477	$ 4,410,230
Cash paid for income taxes	$ 2,160,750	$ 3,601,400	$ 3,212,080

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000
COMMON STOCK			
Balance - beginning of year	$ 2,640,060	$ 2,577,992	$ 2,524,018
Dividend Reinvestment Plan	24,229	20,977	19,983
Retirement Savings Plan	25,669	26,730	25,353
Conversion of debentures	2,199	3,117	5,173
Performance shares and options exercised	2,778	11,244	3,465
Balance - end of year	2,694,935	2,640,060	2,577,992
ADDITIONAL PAID-IN CAPITAL			
Balance - beginning of year	29,653,992	27,672,005	25,782,824
Dividend Reinvestment Plan	936,268	780,582	698,526
Retirement Savings Plan	985,846	997,187	890,806
Conversion of debentures	74,632	105,639	175,599
Performance shares and options exercised	106,245	98,579	124,250
Balance - end of year	31,756,983	29,653,992	27,672,005
RETAINED EARNINGS			
Balance - beginning of year	34,555,560	33,721,747	31,857,732
Net income	3,729,153	6,721,537	7,489,201
Cash dividends (1)	(6,046,203)	(5,887,724)	(5,625,186)
Balance - end of year	32,238,510	34,555,560	33,721,747
TOTAL STOCKHOLDERS' EQUITY	$ 66,690,428	$ 66,849,612	$ 63,971,744

(1) Cash dividends declared per share for 2002, 2001 and 2000 were $1.10, $1.10, and $1.07, respectively.

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000
COMMON STOCK SHARES ISSUED AND OUTSTANDING (2)			
Balance - beginning of year	5,424,962	5,297,443	5,186,546
Dividend Reinvestment Plan (3)	49,782	43,101	41,056
Sale of stock to the Company's Retirement Savings Plan	52,740	54,921	52,093
Conversion of debentures	4,518	6,395	10,628
Performance shares and options exercised	5,708	23,102	7,120
Balance - end of year (4)	5,537,710	5,424,962	5,297,443

(2) 12,000,000 shares are authorized at a par value of $0.4867 per share.
(3) Includes dividends reinvested and optional cash payments.
(4) The Company had 37,353, 30,446, and 7,442 shares held in Rabbi Trusts at December 31, 2002, 2001 and 2000, respectively.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF INCOME TAXES

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000
CURRENT INCOME TAX EXPENSE			
Federal	$ 1,628,267	$ 3,194,125	$ 1,598,184
State	572,545	602,548	264,294
Investment tax credit adjustments, net	(54,816)	(54,815)	(54,815)
Total current income tax expense	2,145,996	3,741,858	1,807,663
DEFERRED INCOME TAX EXPENSE (1)			
Property, plant and equipment	3,742,415	769,264	1,071,852
Deferred gas costs	(1,678,946)	(236,971)	2,404,994
Pensions and other employee benefits	(139,861)	(71,089)	(115,615)
Unbilled revenue	(67,231)	303,136	(736,700)
Goodwill impairment	(1,785,160)	0	0
Environmental expenditures	(404,659)	(142,362)	879
Other (2)	553,600	(111,562)	63,519
Total deferred income tax expense	220,158	510,416	2,688,929
TOTAL INCOME TAX EXPENSE	$ 2,366,154	$ 4,252,274	$ 4,496,592
RECONCILIATION OF EFFECTIVE INCOME TAX RATES			
Federal income tax expense (2)	$ 2,072,404	$ 3,840,832	$ 4,075,170
State income taxes, net of federal benefit	583,564	492,850	489,831
Other	(289,814)	(81,408)	(68,409)
TOTAL INCOME TAX EXPENSE	$ 2,366,154	$ 4,252,274	$ 4,496,592
EFFECTIVE INCOME TAX RATE	38.8%	38.7%	37.5%

AT DECEMBER 31,	2002	2001
DEFERRED INCOME TAXES		
DEFERRED INCOME TAX LIABILITIES:		
Property, plant and equipment	$ 19,568,426	$ 15,730,682
Environmental costs	881,567	1,286,226
Deferred gas costs	960,321	2,607,170
Other	1,307,081	935,104
Total deferred income tax liabilities	22,717,395	20,559,182
DEFERRED INCOME TAX ASSETS:		
Unbilled revenue	1,554,659	1,487,428
Pension and other employee benefits	1,505,008	1,464,878
Goodwill impairment	1,785,160	0
Self insurance	547,349	535,141
Other	479,383	490,622
Total deferred income tax assets	5,871,559	3,978,069
Deferred Income Taxes Per Consolidated Balance Sheet	$ 16,845,836	$ 16,581,113

(1) Includes $107,000, $102,000 and $298,000 of deferred state income taxes for the years 2002, 2001 and 2000, respectively.
(2) Federal income taxes for the years 2002 and 2000 were recorded at 34%. The year 2001 was recorded at 35%.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

A. SUMMARY OF ACCOUNTING POLICIES

NATURE OF BUSINESS

Chesapeake Utilities Corporation ("Chesapeake" or "the Company") is engaged in natural gas distribution to approximately 45,100 customers located in central and southern Delaware, Maryland's Eastern Shore and Florida. The Company's natural gas transmission subsidiary operates a pipeline from various points in Pennsylvania and northern Delaware to the Company's Delaware and Maryland distribution divisions, as well as other utility and industrial customers in Pennsylvania, Delaware and the Eastern Shore of Maryland. The Company's propane distribution and wholesale marketing segment provides distribution service to approximately 34,600 customers in central and southern Delaware, the Eastern Shore of Maryland, Florida and Virginia, and markets propane to a number of large independent oil and petrochemical companies, resellers and propane distribution companies in the southeastern United States. The advanced information services segment provides consulting, custom programming, training, development tools and website development for national and international clients. The water services segment provides water conditioning and treatment products and services and bottled water.

PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. The Company does not have any ownership interests in investments accounted for using the equity method or in any special purpose entities. All significant intercompany transactions have been eliminated in consolidation.

SYSTEM OF ACCOUNTS

The natural gas distribution divisions of the Company located in Delaware, Maryland and Florida are subject to regulation by their respective PSCs with respect to their rates for service, maintenance of their accounting records and various other matters. Eastern Shore Natural Gas Company is an open access pipeline and is subject to regulation by the Federal Energy Regulatory Commission. The Company's financial statements are prepared in accordance with generally accepted accounting principles, which give appropriate recognition to the ratemaking and accounting practices and policies of the various commissions. The propane distribution and marketing, advanced information services and water segments are not subject to regulation with respect to rates or maintenance of accounting records.

PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

Utility property is stated at original cost while the assets of the non-utility segments are recorded at cost. The costs of repairs and minor replacements are charged to income as incurred and the costs of major renewals and betterments are capitalized. Upon retirement or disposition of utility property, the recorded cost of removal, net of salvage value, is charged to accumulated depreciation. Upon retirement or disposition of non-utility property, the gain or loss, net of salvage value, is charged to income. The provision for depreciation is computed using the straight-line method at rates that amortize the unrecovered cost of depreciable property over the estimated remaining useful life of the asset. Depreciation and amortization expenses are provided at an annual rate for each segment. Average rates for the past three years were 4 percent for natural gas distribution and transmission, 6 percent for propane distribution and marketing, 16 percent for advanced information services, 15 percent for water services and 9 percent for general plant.

CASH AND CASH EQUIVALENTS

The Company's policy is to invest cash in excess of operating requirements in overnight income producing accounts. Such amounts are stated at cost, which approximates market value. Investments with an original maturity of three months or less are considered cash equivalents.

INVENTORIES

The Company uses the average cost method to value propane and materials and supplies inventory. The appliance inventory is valued at first-in first-out ("FIFO"). If the market prices drop below cost, inventory balances are adjusted to market values.

ENVIRONMENTAL REGULATORY ASSETS, LIABILITIES AND EXPENDITURES

Environmental regulatory assets represent amounts related to environmental liabilities for which cash expenditures have not been made. As expenditures are incurred, the environmental liability is reduced along with the environmental regulatory asset. These amounts, awaiting ratemaking treatment, are recorded to either environmental expenditures as an asset or accumulated depreciation as cost of removal. Environmental expenditures are amortized and/or recovered through a rider to base rates in accordance with the ratemaking treatment granted in each jurisdiction.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets are associated with the acquisition of non-utility companies. In accordance with SFAS No. 142, goodwill is not amortized, but is tested for impairment on an annual basis. Other intangible assets are amortized on a straight-line basis over their estimated economic useful lives.

OTHER DEFERRED CHARGES

Other deferred charges include discount, premium and issuance costs associated with long-term debt and rate case expenses. Debt costs are deferred, then amortized over the original lives of the respective debt issuances. Gains and losses on the reacquisition of debt are amortized over the remaining lives of the original issuances. Rate case expenses are deferred, then amortized over periods approved by the applicable regulatory authorities.

INCOME TAXES AND INVESTMENT TAX CREDIT ADJUSTMENTS
The Company files a consolidated federal income tax return. Income tax expense allocated to the Company's subsidiaries is based upon their respective taxable incomes and tax credits.

Deferred tax assets and liabilities are recorded for the tax effect of temporary differences between the financial statements and tax bases of assets and liabilities and are measured using current effective income tax rates. The portions of the Company's deferred tax liabilities applicable to utility operations, which have not been reflected in current service rates, represent income taxes recoverable through future rates. Investment tax credits on utility property have been deferred and are allocated to income ratably over the lives of the subject property.

FINANCIAL INSTRUMENTS
Xeron, the Company's propane marketing operation, engages in trading activities using forward and futures contracts which have been accounted for using the mark-to-market method of accounting. Under mark-to-market accounting, the Company's trading contracts are recorded at fair value, net of future servicing costs, and changes in market price are recognized as gains or losses in the income statement in the period of change. The resulting unrealized gains and losses are recorded as assets or liabilities, respectively. At December 31, 2002, there was an unrealized gain of $630,000. At December 31, 2001, there was an unrealized loss of $75,000. Trading liabilities are recorded in other accrued liabilities. Trading assets are recorded in prepaid expenses and other current assets.

The Company's natural gas and propane distribution operations have entered into agreements with natural gas and propane suppliers to purchase gas for resale to their customers. Purchases under these contracts are considered "normal purchases and sales" under SFAS No. 133 and are not marked-to-market.

EARNINGS PER SHARE
The calculations of both basic and diluted earnings per share are presented below. In 2002, the impact of assuming the conversion of debentures would have been anti-dilutive; therefore, it was not included in the calculation. Additionally, in both 2002 and 2001, the effect of assuming the exercise of the outstanding stock options would have been anti-dilutive; therefore, it was not included in the calculations.

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000
CALCULATION OF BASIC EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE:			
Net income before cumulative effect of change in accounting principle	$5,645,153	$6,721,537	$7,489,201
Weighted average shares outstanding	5,489,424	5,367,433	5,249,439
BASIC EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	$ 1.03	$ 1.25	$ 1.43
CALCULATION OF DILUTED EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE:			
RECONCILIATION OF NUMERATOR:			
Net income before cumulative effect of change in accounting principle -- Basic	$5,645,153	$6,721,537	$7,489,201
Effect of 8.25% Convertible debentures	0	171,725	179,701
Adjusted numerator -- Diluted	$5,645,153	$6,893,262	$7,668,902
RECONCILIATION OF DENOMINATOR:			
Weighted shares outstanding -- Basic	5,489,424	5,367,433	5,249,439
Effect of dilutive securities			
Stock options	0	0	11,484
Warrants	1,649	849	0
8.25% Convertible debentures	0	201,125	209,893
Adjusted denominator -- Diluted	5,491,073	5,569,407	5,470,816
DILUTED EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	$ 1.03	$ 1.24	$ 1.40

OPERATING REVENUES
Revenues for the natural gas distribution operations of the Company are based on rates approved by the various public service commissions. The natural gas transmission operation revenues are based on rates approved by FERC. Customers' base rates may not be changed without formal approval by these commissions. However, the regulatory authorities have granted the Company's regulated natural gas distribution operations the ability to negotiate rates with customers that

have competitive alternatives using approved methodologies. In addition, the natural gas transmission operation can negotiate rates above or below the FERC-approved tariff rates. With the exception of the Company's Florida division, the Company recognizes revenues from meters read on a monthly cycle basis. This practice results in unbilled and unrecorded revenue from the cycle date through the end of the month. The Florida division recognizes revenues based on services rendered and records an amount for gas delivered but not yet billed.

Chesapeake's natural gas distribution operations each have a gas cost recovery mechanism that provides for the adjustment of rates charged to customers as gas costs fluctuate. These amounts are collected or refunded through adjustments to rates in subsequent periods.

The Company charges flexible rates to the natural gas distribution's industrial interruptible customers to make them competitive with alternative types of fuel. Based on pricing, these customers can choose natural gas or alternative types of supply. Neither the Company nor the interruptible customer is contractually obligated to deliver or receive natural gas.

The propane distribution operation records revenues on either an "as delivered" or a "metered" basis depending on the customer type. The propane marketing operation records trading activity net, on a mark-to-market basis for open contracts.

The advanced information services, water services and other segments record revenue in the period the products are delivered and/or services are rendered.

CERTAIN RISKS AND UNCERTAINTIES

The financial statements are prepared in conformity with generally accepted accounting principles that require management to make estimates in measuring assets and liabilities and related revenues and expenses (see Notes M and N to the Consolidated Financial Statements for significant estimates). These estimates involve judgments with respect to, among other things, various future economic factors that are difficult to predict and are beyond the control of the Company. Therefore, actual results could differ from those estimates.

The Company records certain assets and liabilities in accordance with SFAS No. 71. If the Company were required to terminate application of SFAS No. 71 for its regulated operations, all such deferred amounts would be recognized in the income statement at that time. This would result in a charge to earnings, net of applicable income taxes, which could be material.

FASB STATEMENTS AND OTHER AUTHORITATIVE PRONOUNCEMENTS

During the third quarter, the Company implemented the provisions of a recent consensus reached by the EITF of the FASB that reconsidered certain provisions in EITF Issue No. 02-03 "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." EITF 02-03 addresses the presentation of revenue and expense associated with energy trading contracts on a gross versus net basis. Previously, the EITF concluded that gross presentation was acceptable. However, during deliberations held in June 2002, a consensus was reached that net presentation should be required. This consensus also indicated that implementation would be effective for the third quarter 2002 reporting cycle and that prior periods should also be reclassified.

Under prior standards, the Company classified certain energy trading contracts entered into by its propane wholesale marketing operations on a gross basis. Recording the energy trading contracts on a net basis did not change the gross margin, net income, earnings per share or the financial position of the Company. For the years ended December 31, 2002 and 2001, both revenues and cost of sales were reduced by $96.5 million and $170.8 million, respectively. As stated above, there was no impact on gross margin, net income, earnings per share or the financial position of the Company.

On June 30, 2001, the FASB issued SFAS Nos. 142 and 143. SFAS No. 142, "Goodwill and Other Intangible Assets," eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. The pronouncement requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, amortization of goodwill for acquisitions completed after June 30, 2001, was prohibited. This pronouncement was adopted in the first quarter of 2002. See Note F to the Consolidated Financial Statements for a description of its impact on the financial statements and additional disclosures required by the pronouncement.

SFAS No. 143, "Accounting for Asset Retirement Obligations," provides guidance on the accounting for obligations associated with the retirement of long-lived assets. The pronouncement requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company's initial review of the impact of adopting SFAS No. 143 has been completed, and it is not expected to have a material impact on the Company's income. The Company may be required to reclassify amounts representing negative salvage value on its utility property out of accumulated depreciation and establish a liability account.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," replaces SFAS No. 121. The statement develops one accounting model for long-lived assets to be disposed of by sale and addresses significant implementation issues. SFAS No. 144 was adopted in the first quarter of 2002, as required. Its adoption did not have a material impact on the Company's financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections. "SFAS No. 145 covers the reporting of gains and losses on extinguishment of debt. This pronouncement is not expected to have a material impact on the Company's financial position or results of operations.

The FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" in June 2002. It requires that a liability for a cost associated with an exit or disposal activity be recognized when a liability is incurred. Under previous guidelines, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. Adoption of this pronouncement is not expected to impact the Company's financial position or results of operations.

On October 25, 2002, the EITF rescinded Issue No. 98-10 ("EITF 98-10"), "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The Company's interpretation of EITF 98-10 is consistent with the current rules that are being applied under SFAS No. 133; therefore, management does not believe that rescinding EITF 98-10 will impact its financial position or results of operations.

The FASB also adopted SFAS No. 147, "Acquisitions of Certain Financial Institutions," and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," in 2002. These pronouncements had no impact on the Company's financial position or results of operations.

RESTATEMENT AND RECLASSIFICATION OF PRIOR YEARS' AMOUNTS
Certain prior years' amounts have been reclassified to conform to the current year's presentation.

B. BUSINESS COMBINATIONS
During 2001, Chesapeake acquired Absolute Water Care, Inc., and selected assets of Aquarius Systems, Inc., EcoWater Systems of Rochester, Intermountain Water, Inc. and Blue Springs Water. In January 2000, Chesapeake acquired Carroll Water Systems, Inc. These companies provide water treatment, water conditioning and bottled water to customers in various geographic regions.

These acquisitions were all accounted for as purchases and the Company's financial results include the results of operations from the dates of acquisition.

C. SEGMENT INFORMATION
The following table presents information about the Company's reportable segments.

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000
OPERATING REVENUES, UNAFFILIATED CUSTOMERS			
Natural gas distribution and transmission. . .	$ 93,455,546	$107,824,752	$ 99,616,794
Propane distribution and marketing	24,521,931	27,612,578	31,779,593
Advanced information services.	12,523,856	14,103,890	12,353,056
Water services	11,720,505	9,971,020	7,010,538
Other.	7,697	0	26,005
Total operating revenues, unaffiliated customers.	$142,229,535	$159,512,240	$150,785,986
INTERSEGMENT REVENUES (1)			
Natural gas distribution and transmission. . .	$ 90,730	$ 112,006	$ 119,480
Advanced information services.	239,767	0	36,535
Water services	10,462	0	0
Other.	709,759	783,051	814,995
Total intersegment revenues	$ 1,050,718	$ 895,057	$ 971,010
OPERATING INCOME BEFORE INCOME TAXES			
Natural gas distribution and transmission. . .	$ 14,986,857	$ 14,454,665	$ 12,548,996
Propane distribution and marketing	1,051,888	912,819	2,135,001
Advanced information services.	343,296	517,427	335,849
Water services	(2,785,761)	(724,557)	190,178
Other & eliminations	236,090	385,404	815,947
Total operating income before income taxes. . . .	$ 13,832,370	$ 15,545,758	$ 16,025,971
DEPRECIATION AND AMORTIZATION			
Natural gas distribution and transmission. . .	$ 6,428,683	$ 5,638,336	$ 5,236,008
Propane distribution and marketing	1,602,655	1,465,215	1,446,063
Advanced information services.	208,430	255,760	280,053
Water services	843,155	741,668	375,432
Other & eliminations	228,560	232,503	(194,945)
Total depreciation and amortization	$ 9,311,483	$ 8,333,482	$ 7,142,611

CAPITAL EXPENDITURES			
Natural gas distribution and transmission. . .	$ 12,116,993	$ 23,185,889	$ 17,355,382
Propane distribution and marketing	1,231,199	2,453,081	3,762,630
Advanced information services.	99,290	252,159	240,727
Water services	1,203,997	2,892,799	998,672
Other.	388,051	401,877	698,318
Total capital expenditures.	$ 15,039,530	$ 29,185,805	$ 23,055,729

(1) All significant intersegment revenues are billed at market rates and have been eliminated from consolidated revenues.

AT DECEMBER 31, ...	2002	2001	2000
IDENTIFIABLE ASSETS			
Natural gas distribution and transmission. . .	$153,609,232	$151,872,347	$139,985,168
Propane distribution and marketing	37,737,882	34,314,633	48,800,935
Advanced information services.	2,734,188	2,593,740	2,382,407
Water services	7,197,328	12,001,461	7,724,647
Other.	9,665,544	9,552,845	11,771,858
Total identifiable assets	$210,944,174	$210,335,026	$210,665,015

Chesapeake uses the management approach to identify operating segments. Chesapeake organizes its business around differences in products or services and the operating results of each segment are regularly reviewed by the Company's chief operating decision maker in order to make decisions about resources and to assess performance. The segments are evaluated based on their pre-tax operating income.

In 2002, water services began to be reported separately. Also in 2002, the management of the customers served by the Company's underground piped propane operations was transferred to the propane segment from the natural gas distribution and transmission segment. Segment results for all periods shown have been reclassified to reflect these changes.

D. FAIR VALUE OF FINANCIAL INSTRUMENTS

Various items within the balance sheet are considered to be financial instruments because they are cash or are to be settled in cash. The carrying values of these items generally approximate their fair value (see Note E to the Consolidated Financial Statements for disclosure of fair value of investments). The Company's open forward and futures contracts at December 31, 2002, and December 31, 2001, had a net unrealized gain in fair value of $630,000 and a net unrealized loss in fair value of $75,000, respectively, based on market rates. The fair value of the Company's long-term debt is estimated using a discounted cash flow methodology. The Company's long-term debt at December 31, 2002, including current maturities, had an estimated fair value of $88.0 million as compared to a carrying value of $77.3 million. At December 31, 2001, the estimated fair value was approximately $56.9 million as compared to a carrying value of $51.1 million. These estimates are based on published corporate borrowing rates for debt instruments with similar terms and average maturities.

E. INVESTMENTS

The investment balances at December 31, 2002 and 2001, consisted primarily of a Rabbi Trust ("the trust") associated with the acquisition of Xeron, Inc. The Company has classified the underlying investments held by the trust as trading securities, which require all gains and losses to be recorded into non-operating income. The trust was established during the acquisition as a retention bonus for an executive of Xeron. The Company has an associated liability recorded which is adjusted, along with non-operating expense, for the gains and losses incurred by the trust.

F. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company adopted SFAS No. 142 in the first quarter of 2002. Application of the non-amortization provisions resulted in $154,000 of additional income ($0.03 per share), after tax, for 2002 compared to 2001. The Company performed a test as of January 1, 2002, for goodwill impairment using the two-step process prescribed in SFAS No. 142. The first step was a screen for potential impairment, using January 1, 2002, as the measurement date. The second step was a measurement of the amount of the goodwill determined to be impaired. The results of the tests indicated that the goodwill associated with the Company's water business was impaired and that the amount of the impairment was $3.2 million. This was recorded as the cumulative effect of a change in accounting principle. The fair value of the water business was determined using several methods, including discounted cash flow projections and market valuations for recent purchases and sales of similar businesses. These were weighted based on their expected probability. The previous test for impairment of goodwill, prescribed under SFAS No. 121, looked at undiscounted cash flows. The determination that the goodwill associated with the Company's water business was impaired was the result of the more stringent tests required by the new pronouncement. SFAS No. 142 requires that impairment tests be performed annually. At December 31, 2002, the test indicated an additional impairment charge of $1.5 million was necessary. The unprofitable performance of the Company's water services business was the primary cause of the impairment.

The change in the carrying value of goodwill for the year ended December 31, 2002, is as follows:

	WATER BUSINESSES	PROPANE	TOTAL
Balance at January 1, 2002	$ 4,869,068	$ 674,451	$ 5,543,519
Impairment charges	(4,674,000)	0	(4,674,000)
Balance at December 31, 2002	$ 195,068	$ 674,451	$ 869,519

The impact of the non-amortization provision of SFAS No. 142 was as follows:

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2001	NET INCOME	BASIC EARNINGS PER SHARE	DILUTED EARNINGS PER SHARE
Net Income	$ 6,721,537	$ 1.252	$ 1.238
Amortization of goodwill, after tax.	153,594	0.029	0.027
Net Income, exclusive of amortization. . . .	$ 6,875,131	$ 1.281	$ 1.265

Intangible assets subject to amortization are as follows:

	DECEMBER, 2002		DECEMBER 31, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer Lists	$ 1,099,202	$ 191,838	$ 1,111,651	$ 82,141
Non-compete agreements	1,000,000	256,257	1,000,000	140,417
Acquisition costs. . .	379,400	102,885	379,541	87,870
Total.	$ 2,478,602	$ 550,980	$ 2,491,192	$ 310,428

Amortization of intangible assets was $241,000 for 2002. For the year ended December 31, 2001, amortization of intangibles, excluding goodwill, was $132,000. The estimated annual amortization of intangibles for the next five years is: $224,000 for 2003; $224,000 for 2004; $213,000 for 2005; $213,000 for 2006; and $213,000 for 2007.

G. COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL

In 2000 and 2001, the Company entered into agreements with an investment banker to assist in identifying acquisition candidates. Under the agreements, the Company issued warrants to the investment banker to purchase 15,000 shares of Company stock in 2001 at a price of $18.25 per share and 15,000 shares in 2000 at a price of $18.00. The warrants are exercisable during a seven-year period after the date granted. The Company has recognized expenses of $47,500 related to the warrants. No warrants have been exercised.

H. LONG-TERM DEBT

The outstanding long-term debt, net of current maturities, is as shown below.

AT DECEMBER 31,	2002	2001
First mortgage sinking fund bonds:		
9.37% Series I, due December 15, 2004	$ 756,000	$ 1,512,000

Uncollateralized senior notes:		
7.97% note, due February 1, 2008. . .	5,000,000	6,000,000
6.91% note, due October 1, 2010 . . .	6,363,636	7,272,727
6.85% note, due January 1, 2012 . . .	8,000,000	10,000,000
7.83% note, due January 1, 2015 . . .	20,000,000	20,000,000
6.64% note, due October 31, 2017. . .	30,000,000	0
Convertible debentures:		
8.25% due March 1, 2014.	3,281,000	3,358,000
Other debt	7,048	265,869
Total Long-Term Debt	$73,407,684	$48,408,596

Annual maturities of consolidated long-term debt for the next five years are as follows: $3,938,006 for 2003; $3,672,138 for 2004; $2,909,091 for 2005; $4,909,091 for 2006;and $7,636,364 for 2007.

The Company completed the private placement of $30.0 million of long-term debt due October 31, 2017, and drew down the funds on October 31, 2002. The debt has a fixed interest rate of 6.64 percent. The funds were used to repay short-term borrowing.

The convertible debentures may be converted, at the option of the holder, into shares of the Company's common stock at a conversion price of $17.01 per share. During 2002 and 2001, debentures totaling $77,000 and $109,000, respectively, were converted to stock. The debentures are also redeemable for cash at the option of the holder, subject to an annual non-cumulative maximum limitation of $200,000. During 2001 debentures totaling $4,000 were redeemed for cash. None were redeemed in 2002. At the Company's option, the debentures may be redeemed at stated amounts.

Indentures to the long-term debt of the Company and its subsidiaries contain various restrictions. The most stringent restrictions state that the Company must maintain equity of at least 40 percent of total capitalization and the times interest earned ratio must be at least 2.5.

Portions of the Company's natural gas distribution plant assets are subject to a lien under the mortgage pursuant to which the Company's first mortgage sinking fund bonds are issued.

I. SHORT-TERM BORROWING

As of December 31, 2002, the Board of Directors had authorized the Company to borrow up to $35.0 million from various banks and trust companies under short-term lines of credit. Prior to the issuance of the $30.0 million long-term debt on October 31, 2002, the Company had authorization to borrow up to $55.0 million. As of December 31, 2002, the Company had four unsecured, short-term bank lines of credit totaling $75.0 million, none of which required compensating balances. Under these lines of credit, the Company had short-term debt outstanding of $10.9 million and $42.1 million at December 31, 2002 and 2001, respectively. The annual weighted average interest rates were 2.35 percent for 2002 and 4.43 percent for 2001.

J. LEASE OBLIGATIONS

The Company has entered several operating lease arrangements for office space at various locations, equipment and pipeline facilities. Rent expense related to these leases was $1.1 million, $827,000 and $652,000 for 2002, 2001 and 2000, respectively. Future minimum payments under the Company's current lease agreements are $854,000, $746,000, $586,000, $522,000 and $143,000 for the years of 2003 through 2007, respectively; and $677,000 thereafter, totaling $3.5 million.

K. EMPLOYEE BENEFIT PLANS

PENSION PLAN

In December 1998, the Company restructured its employee benefit plans to be competitive with those in similar industries. Chesapeake offered participants of the defined benefit plan the option to remain in the plan or receive a one-time payout and enroll in an enhanced retirement savings plan. Chesapeake closed the defined benefit plan to new participants, effective December 31, 1998. Benefits under the plan are based on each participant's years of service and highest average compensation. The Company's funding policy provides that payments to the trustee shall be equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

The following schedule sets forth the funded status of the pension plan at December 31, 2002 and 2001:

AT DECEMBER 31,	2002	2001
CHANGE IN BENEFIT OBLIGATION:		
Benefit obligation -- beginning of year	$ 10,120,364	$ 8,826,534
Service cost	319,230	347,955
Interest cost.	672,392	646,205
Change in discount rate.	372,918	659,629

Actuarial (gain) loss	(307,100)	47,068
Benefits paid	(395,814)	(407,027)
Benefit obligation -- end of year	10,781,990	10,120,364
CHANGE IN PLAN ASSETS:		
Fair value of plan assets -- beginning of year.	11,745,574	11,738,984
Actual return on plan assets	(1,911,035)	413,617
Benefits paid	(395,814)	(407,027)
Fair value of plan assets -- end of year	9,438,725	11,745,574
FUNDED STATUS	(1,343,265)	1,625,210
UNRECOGNIZED TRANSITION OBLIGATION	(50,955)	(66,059)
UNRECOGNIZED PRIOR SERVICE COST	(48,356)	(53,055)
UNRECOGNIZED NET LOSS (GAIN)	659,522	(2,413,816)
ACCRUED PENSION COST	($783,054)	($907,720)
ASSUMPTIONS:		
Discount rate	6.75%	7.00%
Rate of compensation increase	5.00%	4.75%
Expected return on plan assets	8.50%	8.50%

Net periodic pension costs for the defined benefit pension plan for 2002, 2001 and 2000 include the components as shown below:

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000
COMPONENTS OF NET PERIODIC PENSION COST:			
Service cost	$ 319,230	$ 347,955	$ 354,031
Interest cost	672,392	646,205	605,185
Expected return on assets	(980,915)	(981,882)	(859,245)
Amortization of:			
Transition assets	(15,104)	(15,104)	(15,104)
Prior service cost	(4,699)	(4,699)	(4,699)
Actuarial gain	(115,570)	(195,029)	(141,533)
NET PERIODIC PENSION BENEFIT	($124,666)	($202,554)	($61,365)

The Company sponsors an unfunded executive excess benefit plan. The accrued benefit obligation and accrued pension costs were $1.2 million and $840,000, respectively, as of December 31, 2002, and $1.2 million and $687,000, respectively, at December 31, 2001.

RETIREMENT SAVINGS PLAN

The Company sponsors a 401(k) Retirement Savings Plan, which provides participants a mechanism for making contributions for retirement savings. Each participant may make pre-tax contributions of up to 15 percent of eligible base compensation, subject to Internal Revenue Service limitations. For participants still covered by the defined benefit pension plan, the Company makes a contribution matching 60 percent or 100 percent of each participant's pre-tax contributions based on the participant's years of service, not to exceed six percent of the participant's eligible compensation for the plan year.

Effective January 1, 1999, the Company began offering an enhanced 401(k) plan to all new employees, as well as existing employees that elected to no longer participate in the defined benefit plan. The Company makes matching contributions on a basis of up to six percent of each employee's pre-tax compensation for the year. The match is between 100 percent and 200 percent, based on a combination of the employee's age and years of service. The first 100 percent of the funds are matched with Chesapeake common stock. The remaining match is invested in the Company's 401(k) plan according to each employee's election options. On December 1, 2001, the Company converted the 401(k) fund holding Chesapeake stock to an Employee Stock Ownership Plan.

Effective, January 1, 1999, the Company began offering a non-qualified supplemental employee retirement savings plan open to Company executives over a specific income threshold. Participants receive a cash only matching contribution percentage equivalent to their 401(k) match level. All contributions and matched funds earn interest income monthly. This plan is not funded externally.

The Company's contributions to the 401(k) plans totaled $1,409,000, $1,352,000 and $1,231,000 for the years ended December 31, 2002, 2001 and 2000, respectively. As of December 31, 2002, there are 220,467 shares reserved to fund future contributions to the Retirement Savings Plan.

OTHER POST-RETIREMENT BENEFITS

The Company sponsors a defined benefit post-retirement health care and life insurance plan that covers substantially all natural gas and corporate employees.

Net periodic post-retirement costs for 2002, 2001 and 2000 include the following components:

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000
COMPONENTS OF NET PERIODIC POST-RETIREMENT COST:			
Service cost.	$ 2,739	$ 887	$ 1,803
Interest cost	68,437	49,799	57,584
Amortization of:			
Transition obligation.	27,859	27,859	27,859
Actuarial (gain) loss.	12,109	(1,717)	0
Net periodic post-retirement cost.	111,144	76,828	87,246
Amounts amortized.	-	-	25,028
TOTAL POST-RETIREMENT COST	$ 111,144	$ 76,828	$ 112,274

The following schedule sets forth the status of the post-retirement health care and life insurance plan:

AT DECEMBER 31,	2002	2001
CHANGE IN BENEFIT OBLIGATION:		
Benefit obligation -- beginning of year	$ 723,926	$ 832,535
Retirees	123,134	(58,485)
Fully-eligible active employees.	140,786	(24,453)
Other active	66,104	(25,671)
Benefit obligation -- end of year.	$ 1,053,950	$ 723,926
FUNDED STATUS.	($1,053,950)	($723,926)
UNRECOGNIZED TRANSITION OBLIGATION	105,859	133,718
UNRECOGNIZED NET LOSS (GAIN)	304,827	(73,737)
ACCRUED POST-RETIREMENT COST	($643,264)	($663,945)
ASSUMPTIONS:		
Discount rate	6.75%	7.00%

The health care inflation rate for 2002 is assumed to be 12 percent for medical and 16 percent for prescription drugs. These rates are projected to gradually decrease to ultimate rates of 5 and 6 percent, respectively, by the year 2009. A one percentage point increase in the health care inflation rate from the assumed rate would increase the accumulated post-retirement benefit obligation by approximately $114,000 as of January 1, 2003, and would increase the aggregate of the service cost and interest cost components of the net periodic post-retirement benefit cost for 2003 by approximately $9,000. A one percentage point decrease in the health care inflation rate from the assumed rate would decrease the accumulated post-retirement benefit obligation by approximately $96,000 as of January 1, 2003, and would decrease the aggregate of the service cost and interest cost components of the net periodic post-retirement benefit cost for 2003 by approximately $7,000.

L. EXECUTIVE INCENTIVE PLANS

The Performance Incentive Plan ("the Plan") adopted in 1992 allows for the granting of stock options, stock appreciation rights and performance shares to certain officers of the Company over a 10-year period. Stock options granted under the Plan entitle participants to purchase shares of the Company's common stock, exercisable in cumulative installments of up to one-third on each anniversary of the commencement of the award period. The plan also enables participants the right to earn performance shares upon the Company's achievement of certain performance goals as set forth in the specific agreements and the individual's achievement of goals set annually for each executive.

The Company executed Stock Option Agreements for a three-year performance period ending December 31, 2000, with certain executive officers. One-half of these options became exercisable over time and the other half became exercisable if certain performance targets are achieved. In 2000, the Company replaced the third year of this Stock Option Agreement with Stock Appreciation Rights ("SARs"). The SARs are awarded based on performance with a minimum number of SARs established for each participant. During 2001 and 2000, the Company granted 10,650 and 13,150 SARs, respectively, in conjunction with the agreement. Chesapeake currently awards performance shares annually for certain other executive officers. Each year participants are eligible to earn a maximum number of performance shares, based on the Company's achievement of certain performance goals. The Company recorded compensation expense of $165,000, $123,000 and $118,000 associated with these performance shares in 2002, 2001 and 2000, respectively.

Changes in outstanding options were as shown on the chart below:

	2002		2001		2000	
	NUMBER OF SHARES	OPTION PRICE	NUMBER OF SHARES	OPTION PRICE	NUMBER OF SHARES	OPTION PRICE
Balance - beginning of year. . . .	41,948	$20.50	110,093	$12.75-$20.50	163,637	$12.75-$20.50
Options exercised			(53,220)	$12.75		
Options expired			(14,925)	$12.75		
Options forfeited or replaced					(53,544)	$20.50
Balance - end of year.	41,948	$20.50	41,948	$20.50	110,093	$20.50
Exercisable.	41,948	$20.50	41,948	$20.50	110,093	$12.75-$20.50

In December 1997, the Company granted stock options to certain executive officers of the Company. SFAS No. 123 requires the disclosure of pro forma net income and earnings per share as if fair value based accounting had been used to account for the stock-based compensation costs. Accordingly, pro forma net income, basic earnings per share and diluted earnings per share for 2000 were $7,475,885, $1.42 and $1.40, respectively. The assumptions used in calculating the pro forma information were: dividend yield, 4.73 percent; expected volatility, 15.53 percent; risk-free interest rate, 5.89 percent; and an expected life of four years. No options have been granted since 1997; therefore, there is no pro forma impact for 2002 or 2001. The weighted average exercise price of outstanding options was $20.50, $20.50 and $15.70 at December 31, 2002, 2001 and 2000, respectively. The options outstanding at December 31, 2002, expire on December 31, 2005. As of December 31, 2002, there were 336,241 shares reserved for issuance under the terms of the Company's Performance Incentive Plan.

M. ENVIRONMENTAL COMMITMENTS AND CONTINGENCIES

The Company is currently participating in the investigation, assessment or remediation of three former gas manufacturing plant sites located in different jurisdictions, including the exploration of corrective action options to remove environmental contaminants. The Company has accrued liabilities for the Dover Gas Light, Salisbury Town Gas Light and the Winter Haven Coal Gas sites. The Company is currently in discussions with the Maryland Department of the Environment ("MDE") regarding a fourth site in Cambridge, Maryland.

In May 2001, Chesapeake, General Public Utilities Corporation, Inc. (now First Energy), the State of Delaware and the United States Environmental Protection Agency ("EPA") signed a settlement term sheet reflecting the agreement in principle to settle a lawsuit with respect to the Dover Gas Light site. The terms of the final agreement have been memorialized in two consent decrees and have been approved by all parties. The consent decrees have been presented to the Department of Justice to its highest level of management for final approval. The consent decrees will then be published for public comment and submitted to a federal judge for final approval.

If the agreement receives final approval, Chesapeake will:

o Receive a net payment of $1.15 million from other parties to the agreement. These proceeds will be passed on to Chesapeake's firm customers, in accordance with the environmental rate rider.

o Receive a release from liability and covenant not to sue from the EPA and the State of Delaware. This will relieve Chesapeake from liability for future remediation at the site, unless previously unknown conditions are discovered at the site, or information previously unknown to the EPA is received that indicates the remedial action related to the former manufactured gas plant is not sufficiently protective. These contingencies are standard, and are required by the United States in all liability settlements.

At December 31, 2002, the Company had accrued $2.1 million (discounted) of costs associated with the remediation of the Dover site and had recorded an associated regulatory asset for the same amount. Of that amount, $1.5 million was for estimated ground-water remediation and $600,000 was for remaining soil remediation. The $1.5 million represented the low end of the ground-water remediation estimates prepared by an independent consultant and was used because the Company could not, at that time, predict the remedy the EPA might require.

Through December 31, 2002, the Company has incurred approximately $9.2 million in costs relating to environmental testing and remedial action studies at the Dover site. Approximately $6.9 million has been recovered through December 2002 from other parties or through rates.

Upon receiving final court approval of the consent decrees, Chesapeake will reduce both the accrued environmental liability and the associated environmental regulatory asset to the amount required to complete its obligations.

The second site is the Salisbury Town Gas Light site in Salisbury, Maryland. In cooperation with the MDE, the Company performed remediation that included the following: (1) operation of an air sparging/soil vapor extraction ("AS/SVE") remedial system; (2) monitoring and recovery of product from recovery wells; and (3) monitoring of ground-water quality. In February 2002, the MDE granted permission to permanently decommission the AS/SVE remedial system and abandon nearly all of the monitoring wells on-site and off-site. The Company is currently seeking a No Further Action ("NFA") for the site. The NFA would be conditional upon the Company performing continued product monitoring and recovery at one well location and implementing land use controls. Evaluation of historical sampling results is currently being performed to determine the level of land use controls that will be required by the MDE for the site.

The Company has adjusted the liability with respect to the Salisbury site to $21,000 at December 31, 2002. The Company had previously accrued $100,000 as of December 31, 2001. This amount is based on the estimated costs to perform limited product monitoring and recovery efforts and fulfill ongoing reporting requirements. A corresponding regulatory asset has been recorded, reflecting the Company's belief that costs incurred will be recoverable in base rates.

Through December 31, 2002, the Company has incurred approximately $2.9 million for remedial actions and environmental studies at the Maryland site. Of this amount, approximately $1.8 million has been recovered through insurance proceeds or ratemaking treatment. The Company will apply for the recovery of these and any future costs in the next base rate filing with the Maryland Public Service Commission.

The third site is located in the state of Florida. In January 2001, the Company filed a remedial action plan ("RAP") with the Florida Department of the Environment ("FDEP"). The RAP was approved by the FDEP on May 4, 2001. The current estimate of remaining costs to complete the RAP is $681,000 (discounted). Accordingly, at December 31, 2002, the Company accrued a liability of $681,000. Through December 31, 2002, the Company has incurred approximately $319,000 of environmental costs associated with the Florida site. A regulatory asset of $406,000 representing the uncollected portion of the estimated clean up costs has also been recorded. Once the FDEP approves the RAP, the Company will commence with the remediation procedures per the RAP.

It is management's opinion that any unrecovered current costs and any other future costs associated with any of the three sites incurred will be recoverable through future rates or sharing arrangements with other responsible parties.

In August 2002, the Company along with two other parties met with MDE to discuss alleged manufactured gas plant contamination at a property located in Cambridge, Maryland. At that meeting, one of the other parties agreed to perform a remedial investigation of the site. The possible exposure of the Company at this site cannot be determined at this time.

It is management's opinion that any unrecovered current costs and any other future costs associated with any of the three sites incurred will be recoverable through future rates or sharing arrangements with other responsible parties.

N. OTHER COMMITMENTS AND CONTINGENCIES

NATURAL GAS AND PROPANE SUPPLY

The Company's natural gas and propane distribution operations have entered into contractual commitments for gas from various suppliers. The contracts have various expiration dates. In 2000, the Company entered into a long-term contract with an energy marketing and risk management company to manage a portion of the Company's natural gas transportation and storage capacity. That contract expires on October 31, 2003.

CORPORATE GUARANTEES

The Company has issued corporate guarantees to certain vendors of its propane wholesale marketing subsidiary. The guarantees at December 31, 2002, totaled $4.5 million and expire on various dates in 2003.

OTHER

The Company is involved in certain legal actions and claims arising in the normal course of business. The Company is also involved in certain legal and administrative proceedings before various governmental agencies concerning rates. In the opinion of management, the ultimate disposition of these proceedings will not have a material effect on the consolidated financial position of the Company.

O. QUARTERLY FINANCIAL DATA (UNAUDITED)

In the opinion of the Company, the quarterly financial information shown below includes all adjustments necessary for a fair presentation of the operations for such periods. Due to the seasonal nature of the Company's business, there are substantial variations in operations reported on a quarterly basis. Due to the adoption of EITF Issue No. 02-03 in the third quarter of 2002, which required reclassification of prior periods, the amounts presented below do not agree to amounts reported in prior Form 10-Q reports.

FOR THE QUARTERS ENDED	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
2002				
Operating Revenue.	$45,937,941	$31,661,191	$ 23,528,465	$ 41,101,938
Gross Margin	22,339,889	14,526,398	12,331,845	18,878,210
Operating Income	5,906,924	1,701,808	198,372	2,562,574
Before Change in Accounting Principle				
Net Income (Loss).	4,883,478	529,694	(939,165)	1,171,146
Earnings per share:				
Basic.	$ 0.90	$ 0.10	($0.17)	$ 0.21
Diluted.	$ 0.87	$ 0.10	($0.17)	$ 0.21
After Change in Accounting Principle				
Net Income	2,967,478	529,694	(939,165)	1,171,146
Earnings per share:				
Basic.	$ 0.55	$ 0.10	($0.17)	$ 0.21
Diluted.	$ 0.53	$ 0.10	($0.17)	$ 0.21
2001				
Operating Revenue.	$65,593,008	$36,990,529	$ 24,794,008	$ 32,134,695
Gross Margin	23,156,863	13,811,322	11,755,652	15,241,843
Operating Income	6,666,331	1,741,229	562,419	2,548,236
Net Income (Loss).	5,365,469	666,726	(674,966)	1,364,308
Earnings per share:				
Basic.	$ 1.01	$ 0.12	($0.13)	$ 0.25
Diluted.	$ 0.98	$ 0.12	($0.13)	$ 0.25

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information pertaining to the Directors of the Company is incorporated herein by reference to the Proxy Statement, under "Information Regarding the Board of Directors and Nominees" and Section 16(a) Beneficial Ownership Reporting Compliance" to be filed not later than April 30, 2003 in connection with the Company's Annual Meeting to be held on May 20, 2003.

The information required by this item with respect to executive officers is, pursuant to instruction 3 of paragraph (b) of Item 401 of Regulation S-K, set forth in Part I of this Form 10-K under "Executive Officers of the Registrant."

ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated herein by reference to the portion of the Proxy Statement captioned "Management Compensation Committee Interlocks and Insider Participation", in the Proxy Statement to be filed not later than April 30, 2003, in connection with the Company's Annual Meeting to be held on May 20, 2003.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated herein by reference to the portion of the Proxy Statement captioned "Beneficial Ownership of the Company's Securities" to be filed not later than April 30, 2003 in connection with the Company's Annual Meeting to be held on May 20, 2003.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated herein by reference to the portion of the Proxy Statement captioned "Certain Transactions" to be filed not later than April 30, 2003, in connection with the Company's Annual Meeting to be held on May 20, 2003.

PART IV

ITEM 14. FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES, EXHIBITS AND REPORTS ON FORM 8-K

(A) THE FOLLOWING DOCUMENTS ARE FILED AS PART OF THIS REPORT:

1. Financial Statements:
   - o Accountants' Report dated February 20, 2003 of PricewaterhouseCoopers LLP, Independent Accountants
   - o Consolidated Statements of Income for each of the three years ended December 31, 2002, 2001 and 2000
   - o Consolidated Balance Sheets at December 31, 2002 and December 31, 2001
   - o Consolidated Statements of Cash Flows for each of the three years ended December 31, 2002, 2001 and 2000
   - o Consolidated Statements of Common Stockholders' Equity for each of the three years ended December 31, 2002, 2001 and 2000
   - o Consolidated Statements of Income Taxes for each of the three years ended December 31, 2002, 2001 and 2000

- Notes to Consolidated Financial Statements

2. Financial Statement Schedules - Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted because they are not required, are inapplicable or the information is otherwise shown in the financial statements or notes thereto.

(B) REPORTS ON FORM 8-K:
On November 6, 2002, the Company filed, under Item 5, that the Company had completed a private placement of $30 million of long-term Senior Notes payable.

(C) EXHIBITS:
Exhibit 3(a) Amended Certificate of Incorporation of Chesapeake Utilities Corporation is incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998, File No. 001-11590.

Exhibit 3(b) Amended Bylaws of Chesapeake Utilities Corporation, effective August 20, 1999, are incorporated herein by reference to Exhibit 3 of the Company's Registration Statement on Form 8-A, File No. 001-11590, filed August 24, 1999.

Exhibit 4(a) Form of Indenture between the Company and Boatmen's Trust Company, Trustee, with respect to the 8 1/4% Convertible Debentures is incorporated herein by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-2, Reg. No. 33-26582, filed on January 13, 1989.

Exhibit 4(b) First Mortgage Sinking Fund Bonds dates December 15, 1989 between the Company and The Prudential Insurance Company of America, with respect to $8.2 million of 9.37% Series I Mortgage Bonds due December 15, 2004, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.

Exhibit 4(c) Note Agreement dated February 9, 1993, by and between the Company and Massachusetts Mutual Life Insurance Company and MML Pension Insurance Company, with respect to $10 million of 7.97% Unsecured Senior Notes due February 1, 2008, is incorporated herein by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 0-593.

Exhibit 4(d) Note Purchase Agreement entered into by the Company on October 2, 1995, pursuant to which the Company privately placed $10 million of its 6.91% Senior Notes due in 2010, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.

Exhibit 4(e) Note Purchase Agreement entered into by the Company on December 15, 1997, pursuant to which the Company privately placed $10 million of its 6.85% Senior Notes due 2012, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.

Exhibit 4(f) Note Purchase Agreement entered into by the Company on December 27, 2000, pursuant to which the Company privately placed $20 million of its 7.83% Senior Notes due 2015, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.

Exhibit 4(g) Note Agreement entered into by the Company on October 31, 2002, pursuant to which the Company privately placed $30 million of its 6.64% Senior Notes due 2017, is incorporated herein by reference to Exhibit 2 of the Company's Current Report on Form 8-K, filed November 6, 2002, File No. 001-11590.

*Exhibit 10(a) Executive Employment Agreement dated March 26, 1997, by and between Chesapeake Utilities Corporation and each Ralph J. Adkins and John R. Schimkaitis is incorporated herein by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1997, File No. 001-11590.

*Exhibit 10(b) Form of Executive Employment Agreement dated March 1997, by and between Chesapeake Utilities Corporation and each of Michael P. McMasters, William C. Boyles and Stephen C. Thompson, filed herewith.

*Exhibit 10(c) Executive Employment Agreement dated January 1, 2003, by and between Chesapeake Utilities Corporation and Ralph J. Adkins filed herewith.

*Exhibit 10(d) Form of Performance Share Agreement dated January 1, 1998, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Ralph J. Adkins and John R. Schimkaitis is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 001-11590.

*Exhibit 10(e) Form of Performance Share Agreement dated January 1, 2002, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Ralph J. Adkins, John R. Schimkaitis, Michael P. McMasters, William C. Boyles and Stephen C.

Thompson is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, File No. 001-11590.

*Exhibit 10(f) Form of Performance Share Agreement dated January 1, 2003, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of John R. Schimkaitis, Michael P. McMasters, Stephen C. Thompson and William C. Boyles, filed herewith.

*Exhibit 10(g) Chesapeake Utilities Corporation Cash Bonus Incentive Plan dated January 1, 1992, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991, File No. 0-593.

*Exhibit 10(h) Chesapeake Utilities Corporation Performance Incentive Plan dated January 1, 1992, is incorporated herein by reference to the Company's Proxy Statement dated April 20, 1992, in connection with the Company's Annual Meeting held on May 19, 1992.

*Exhibit 10(i) Form of Stock Appreciation Rights Agreement dated January 1, 2001, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Philip S. Barefoot, William C. Boyles, Thomas A. Geoffroy, James R. Schneider and William P. Schneider is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 001-11590.

*Exhibit 10(j) Directors Stock Compensation Plan adopted by Chesapeake Utilities Corporation in 1995 is incorporated herein by reference to the Company's Proxy Statement dated April 17, 1995 in connection with the Company's Annual Meeting held in May 1995.

*Exhibit 10(k) United Systems, Inc. Executive Appreciation Rights Plan dated December 31, 2000 is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 001-11590.

Exhibit 12 Computation of Ratio of Earning to Fixed Charges, filed herewith.

Exhibit 21 Subsidiaries of the Registrant, filed herewith.

Exhibit 23 Consent of Independent Accountants, filed herewith.

Exhibit 99.1 Certificate of Chief Executive Office of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 28, 2003, filed herewith.

Exhibit 99.2 Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 28, 2003, filed herewith.

* Management contract or compensatory plan or agreement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, Chesapeake Utilities Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Chesapeake Utilities Corporation

By: /s/ John R. Schimkaitis

John R. Schimkaitis
President and Chief
Executive Officer
Date: March 14, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Ralph J. Adkins - ---------------------- Ralph J. Adkins, Chairman of the Board and Director Date: March 14, 2003	/s/ John R. Schimkaitis ------------------------- John R. Schimkaitis, President, Chief Executive Officer and Director Date: March 14, 2003
/s/ Michael P. McMasters - --------------------------- Michael P. McMasters, Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer) Date: March 14, 2003	/s/ Richard Bernstein ----------------------- Richard Bernstein, Director Date: March 14, 2003
/s/ Thomas J. Bresnan - ------------------------ Thomas J. Bresnan, Director Date: March 14, 2003	/s/ Walter J. Coleman ------------------------ Walter J. Coleman, Director Date: March 14, 2003
/s/ John W. Jardine, Jr. - ---------------------------- John W. Jardine, Jr., Director Date: March 14, 2003	/s/ J. Peter Martin ---------------------- J. Peter Martin, Director Date: March 14, 2003
/s/ Joseph E. Moore, Esq. - ----------------------------- Joseph E. Moore, Esq., Director Date: March 14, 2003	/s/ Calvert A. Morgan, Jr. ----------------------------- Calvert A. Morgan, Jr., Director Date: March 14, 2003
/s/ Rudolph M. Peins, Jr. - ----------------------------- Rudolph M. Peins, Jr., Director Date: March 14, 2003	/s/ Robert F. Rider ---------------------- Robert F. Rider, Director Date: March 14, 2003

CERTIFICATIONS

I, John R. Schimkaitis, certify that:

1. I have reviewed this annual report on Form 10-K of Chesapeake Utilities Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report ("Evaluation Date");

    c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function);

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls;

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/ John R. Schimkaitis
- -------------------------
John R. Schimkaitis
President and Chief Executive Officer

I, Michael P. McMasters, certify that:

1. I have reviewed this annual report on Form 10-K of Chesapeake Utilities Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report ("Evaluation Date");

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function);

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls;

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/ Michael P. McMasters
- --------------------------
Michael P. McMasters
Vice President, Treasurer and Chief Financial Officer

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31,	BALANCE AT BEGINNING OF YEAR	ADDITIONS		DEDUCTIONS (2)	BALANCE AT END OF YEAR
		CHARGED TO INCOME	OTHER ACCOUNTS (1)		
RESERVE DEDUCTED FROM RELATED ASSETS					
RESERVE FOR UNCOLLECTIBLE ACCOUNTS					
2002	$621,516	$677,461	$210,735	$ (850,084)	$659,628
2001	$549,961	$592,590	$488,895	$(1,009,930)	$621,516
2000	$475,592	$342,4077	$ 63,741	$ (331,779)	$549,961

(1) Recoveries.
(2) Uncollectible accounts charged off.

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
EXHIBIT 12
RATIO OF EARNINGS TO FIXED CHARGES

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000
INCOME FROM CONTINUING OPERATIONS	$ 5,645,153	$ 6,721,537	$ 7,489,201
Add:			
Income taxes	3,650,154	4,252,275	4,496,592
Portion of rents representative of interest factor	370,061	275,773	156,680
Interest on indebtedness	4,968,652	5,178,495	4,398,266
Amortization of debt discount and expense	89,387	101,183	111,122
EARNINGS AS ADJUSTED	$14,723,407	$16,529,263	$16,651,861
FIXED CHARGES			
Portion of rents representative of interest factor	$ 370,061	$ 275,773	$ 156,680
Interest on indebtedness	4,968,652	5,178,495	4,398,266
Amortization of debt discount and expense	89,387	101,183	111,122
FIXED CHARGES	$ 5,428,100	$ 5,555,451	$ 4,666,068
RATIO OF EARNINGS TO FIXED CHARGES	2.71	2.98	3.57

CHESAPEAKE UTILITIES CORPORATION
EXHIBIT 21
SUBSIDIARIES OF THE REGISTRANT

SUBSIDIARIES	STATE INCORPORATED
Eastern Shore Natural Gas Company	Delaware
Sharp Energy, Inc.	Delaware
Chesapeake Service Company	Delaware
Xeron, Inc.	Mississippi
Sam Shannahan Well Company, Inc.	Maryland
Sharp Water, Inc.	Delaware

SUBSIDIARIES OF SHARP ENERGY, INC.	STATE INCORPORATED
Sharpgas, Inc.	Delaware
Tri-County Gas Co., Incorporated	Maryland

SUBSIDIARIES OF CHESAPEAKE SERVICE COMPANY	STATE INCORPORATED
Skipjack, Inc.	Delaware
BravePoint, Inc.	Georgia
Chesapeake Investment Company	Delaware
Eastern Shore Real Estate, Inc.	Maryland

SUBSIDIARIES OF SHARP WATER, INC.	STATE INCORPORATED
EcoWater Systems of Michigan, Inc.	Michigan
Carroll Water Systems, Inc.	Maryland
Absolute Water Care, Inc.	Florida
Sharp Water of Florida, Inc.	Delaware
Sharp Water of Idaho, Inc.	Delaware
Sharp Water of Minnesota, Inc.	Delaware

Exhibit 99.1

CERTIFICATE OF CHIEF EXECUTIVE OFFICER

OF

CHESAPEAKE UTILITIES CORPORATION

(PURSUANT TO 18 U.S.C. SECTION 1350)

I, John R. Schimkaitis, President and Chief Executive Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2002, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(1) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/s/ JOHN R. SCHIMKAITIS

John R. Schimkaitis
March 28, 2003

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99.2

CERTIFICATE OF CHIEF FINANCIAL OFFICER

OF

CHESAPEAKE UTILITIES CORPORATION

(PURSUANT TO 18 U.S.C. SECTION 1350)

I, Michael P. McMasters, Vice President, Chief Financial Officer and Treasurer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2002, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(1) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/s/ MICHAEL P. MCMASTERS

Michael P. McMasters
March 28, 2003

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (Nos. 33-28391 and 33-64671) and Form S-8 (Nos. 333-01175 and 333-94159) of Chesapeake Utilities Corporation of our report dated February 20, 2003 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS
- ---------------------------
PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
March 28, 2003

Upon written request,
Chesapeake will provide, free of
charge, a copy of any exhibit to
the 2002 Annual Report on
Form 10-K not included
in this document.

EXECUTIVE EMPLOYMENT AGREEMENT

AN EXECUTIVE EMPLOYMENT AGREEMENT ("Agreement") dated this ____ day of __________________, 1997, by and between Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), and _____________ ("Executive").

WITNESSETH:

WHEREAS, the Company is currently obtaining the benefit of Executive's services as a full-time executive employee in the capacity of _________________________________;

WHEREAS, the Company's Board of Directors (the "Board") has authorized the Company to agree to provide for Executive's continued employment pursuant to the terms of this Agreement; and

WHEREAS, Executive is willing, in consideration of the covenants hereinafter provided, to continue to be employed by the Company in the capacity of _________________________________ and to render services incident to such position during the term of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the Company and Executive hereby agree as follows:

1. Employment. The Company agrees to employ Executive, and Executive agrees to accept employment, as an executive officer of the Company in the capacity of _________________________________, with such reasonable duties and responsibilities as are consistent with the By-laws of the Company as of the date hereof, including, but not limited to, ____.

2. Term.

(a) Term of Agreement. The term of this Agreement ("Term") shall be the Initial Term (as defined in Paragraph 2(b) hereof), and, if applicable, the Extended Term (as defined in Paragraph 2(c) hereof).

(b) Initial Term. Subject to Paragraph 2(c) hereof, the Initial Term of this Agreement shall extend for three (3) years commencing on the date of this Agreement.

(c) Extended Term. Upon the occurrence of a Change in Control (as defined in Paragraph 2(d) hereof), the Initial Term shall end and the Term of this Agreement shall thereupon automatically be extended, commencing on the date of such Change in Control, for the shorter of three (3) years or the period until Executive attains the earliest age, if any, at which his compulsory retirement is permitted under section 12(c) of the Age Discrimination in Employment Act of 1967, as amended, 29 U.S.C. 631(c), or its successor (such extended three-year or shorter term constituting the "Extended Term").

(d) Change In Control. For the purposes of this Agreement, Change in Control shall mean a change in the control of the Company during the Term of this Agreement, which shall be deemed to have occurred if:

(i) The registration of the Company's voting securities under the Securities Exchange Act of 1934, as amended (the "1934 Act"), terminates or the Company shall have fewer than 300 stockholders of record; or

(ii) any person or group (within the meaning of Sections 13(d) and 14(d) of the 1934 Act), other than the Company or any of its majority-controlled subsidiaries, becomes the beneficial owner (within the meaning of Rule 13d-3 under the 1934 Act) of 30 percent or more of the combined voting power of the Company's then outstanding voting securities; or

(iii) a tender offer or exchange offer (other than an offer by the Company or a majority-con-trolled subsidiary), pursuant to which 30 percent or more of the combined voting power of the company's then outstanding voting securities was purchased, expires; or

(iv) the stockholders of the Company approve an agreement to merge or consolidate with another corporation (other than a majority-controlled subsidiary of the Company) unless the stockholders of the Company immediately before the merger or consolidation are to own more than 70 percent of the combined voting power of the resulting entity's voting securities; or

(v) the Company's stockholders approve an agreement (including, without limitation, a plan of liquidation) to sell or otherwise dispose of all or substantially all of the business or assets of the Company; or

(vi) during any period of two consecutive years, individuals who, at the beginning of such period, constituted the Board cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company's stockholders of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period; or

(vii) the acquisition of direct or indirect beneficial ownership of more than 15 percent of the Company's then outstanding voting securities by any person or group is approved over the formal objection of the Company by the Securities and Exchange Commission pursuant to Section 9 of the Public Utility Holding Company Act of 1935, as amended.

However, no Change in Control shall be deemed to have occurred by reason of any event involving a transaction in which Executive, or a group of persons or entities with which Executive acts in concert, acquires, directly or indirectly, more than 30 percent of the common stock or the business or assets of the Company; any event involving or arising out of a proceeding under Title 11 of the United States Code (or the provisions of any future United States bankruptcy law), an assignment for the benefit of creditors or an insolvency proceeding under state or local law; or any event constituting approval by the Company's stockholders of a merger or consolidation if a majority of the group consisting of the President and Vice Presidents of the Company who are parties to agreements conferring rights upon a Change in Control shall have agreed in writing prior to such approval that approval shall be deemed not to constitute a Change in Control.

3. Time. Executive agrees to devote all reasonable full time and best efforts for the benefit of the Company and any subsidiary of the Company, and not to serve any other business enterprise or organization in any capacity during the Term hereof without the prior written consent of the Company, which consent shall not be unreasonably withheld.

4. Office.

(a) Initial Term. During the Initial Term, the Company shall elect Executive _________________________________.

(b) Extended Term. During the Extended Term of this Agreement:

(i) Executive shall hold and perform an office with the responsibility, importance and scope within the Company at least equal to that of the office described and contemplated in Paragraph 1 hereof; and

(ii) Executive's office shall be located in Dover, Delaware, and Executive shall not be required, without his written consent, to change his office location or to be absent therefrom on business for more than 60 working days in any year.

5. Compensation.

(a) Initial Term. The Company shall compensate Executive for his services hereunder during the Initial Term at a rate of $_______ per annum, payable in equal semi-monthly installments, or such greater or lesser amount as the Board may determine ("Base Compensation"). The Base Compensation rate shall be reviewed annually and may be increased or decreased from time to time.

(b) Extended Term. During the Extended Term, the Company shall compensate Executive for his services hereun-der at a rate per annum, payable in equal semi-monthly installments, equal to his Base Compensation at the time the Extended Term commences, increased:

(i) effective on each anniversary of the date of this Agreement during the Extended Term by an amount equal to the product of such Base Compensation times the increase in the preceding calendar year of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the Philadelphia metropolitan region as reported by the U.S. Department of Labor (or, if such index is no longer reported, the corresponding increase in a comparable index); and

(ii) by such additional amounts as the Board may determine from time to time based, in part, on an annual review of Executive's compensation.

6. Expenses. During the Term of this Agreement, the Company shall pay all necessary and reasonable business expenses incurred by Executive on behalf of the Company in the course of his employment hereunder, including, without limitation, expenses incurred in the conduct of the Company's business while away from his domicile and expenses for travel, meals, lodging, entertainment and related expenses that are for the benefit of the Company.

7. Other Benefits.

(a) Executive shall be entitled to participate in all profit-sharing, insurance, medical and retirement benefit plans, together with vacation and other employee benefits of the Company, now in effect or as hereafter amended or established, in which the Company executive employees are permitted to participate. The Executive's participation shall be in accordance with the terms and provisions of such plans.

(b) The Company shall furnish Executive with a suitable office, necessary administrative support and customary furniture and furnishings for such office. The Company further agrees that Executive shall have the use of a Company-owned or Company-leased and Company-maintained automobile, new every three years, of a kind and model appropriate to his position with the Company.

(c) Nothing in this Agreement shall preclude the Company from amending or terminating any employee benefit plan or practice, but, it being the intent of the parties that the Executive shall continue to be entitled during the Extended Term to benefits and perquisites as set forth in Paragraphs 7(a) and 7(b) hereof at least equal to those attached to his position on the date of this Agreement, nothing in this Agreement shall operate as, or be construed to authorize, a reduction during the Extended Term without Executive's written consent in the level of such benefits or perquisites as in effect on the date of a Change in Control. If and to the extent that such benefits or perquisites are not payable or provided to Executive under any such plan or practice by reason of an amendment thereto or termination thereof during the Extended Term, the Company shall pay or provide such benefits or perquisites to Executive.

8. Termination.

(a) Termination for Cause. This Agreement and Executive's employment hereunder may be terminated by the Company at any time for Cause. In the event of termination for Cause, the Executive shall not be entitled to any severance benefits under this agreement. During the Initial Term, Cause shall be as the Board may reasonably determine. During the Extended Term, termination of this Agreement and the Executive's employment shall be deemed to have been for Cause only if it shall have been the result of:

(i) conduct by Executive that constitutes a felony under the laws of the United States or a state in which Executive works or resides;

(ii) an act or acts of dishonesty by Execu-tive resulting or intended to result directly or indirectly in material gain to or personal enrichment of Executive at the Company's expense;

(iii) a deliberate and intentional refusal by Executive during the Extended Term (except by reason of incapacity due to illness or accident) to comply with the provisions of Paragraph 1 hereof, provided that such breach shall have resulted in demonstrably material injury to the Company and the Executive shall have failed to remedy such breach within thirty days after notice from the Secretary of the Company demanding that the Executive remedy such breach; or

(iv) the engagement in conduct by Executive that is materially injurious to the Company if such conduct was undertaken without good faith and the reasonable belief that such conduct was in the best interest of the Company.

(b) Termination During Extended Term. During the Extended Term of this Agreement, the term "Termination" shall mean:

(i) Termination by the Company of Executive's employment; or

(ii) Termination by Executive of his employment following the occurrence of any of the following events:

(A) Failure to elect or reelect Executive to, or removal of Executive from, the office or offices set forth in Paragraph 1 hereof, or the Board if Executive shall have been a member of the Board immediately prior to a Change in Control of the Company;

(B) Executive's good-faith determination that there has been a significant change in the nature or scope of his authorities, powers, functions, duties or responsibilities attached to the positions contemplated in Paragraph 1 hereof or a reduction in his compensation as provided in Paragraph 5 hereof or his benefits as provided in Paragraph 7, which change or reduction is not remedied within thirty days after notice to the Company by Executive;

(C) Any other breach by the Company of any provision of this Agreement (including, without limitation, relocation of Executive in violation of Paragraph 4(b) hereof), which breach is not remedied within thirty days after notice to the Company by Executive; or

(D) The liquidation, dissolution, consolidation or merger of the Company or transfer of all or a significant portion of its assets unless a successor or successors (by merger, consolidation or otherwise) to which all or a significant portion of its assets has been transferred shall have assumed all duties and obligations of the Company under this Agreement;

provided that in any event set forth in this Paragraph 8(b)(ii), Executive shall have elected to terminate his employment under this Agreement upon not less than forty (40) and not more than ninety (90) days' notice to the Board, attention of the Secretary, given, except in the case of a continuing breach, within three calendar months after (1) failure to be so elected or reelected, or such removal, (2) expiration of the 30-day cure period with respect to such event, or (3) the closing date of such liquidation, dissolution, consolidation, merger or transfer of assets.

An election by Executive to terminate his employment under the provisions of this Paragraph shall not be deemed a voluntary termination of employment by Executive for the purpose of this Agreement or any plan or practice of the Company.

(c) Payment Upon Termination During Extended Term. In the event of a Termination of this Agreement during the Extended Term hereof for any reason other than Cause or Executive's death, the Company shall, subject to Paragraph 9 hereof, pay to Executive (or, in the event of his death following the Termination, his legal representative) in cash within thirty (30) days after the date of such Termination (the "Termination Date"):

(i) An amount equal to the product of multiplying the monthly rate of Base Compensation to which Executive was entitled under Paragraph 5(b) hereof on the day immediately prior to the Termination Date by the lesser of (A) twelve (12) months or (B) the number of months remaining in the Term of this Agreement (the shorter of such periods constituting the "Covered Period");

(ii) An amount equal to the present value of the additional benefits that would have been paid Executive under the Company's retirement plans if he had continued to be employed pursuant to this Agreement during the Covered Period and the retirement plans had continued during such period without change from the date of the Change in Control;

(iii) For each share of Company stock subject to a stock option that was awarded to Executive under a Company stock option plan, was held by Executive on the day immediately prior to his Termination Date, was not exercisable on that date but would have become exercisable during the Covered Period if Executive's employment with the Company had continued during that period, an amount equal to the excess of (A) the daily average closing price for a share of the Company's stock on the New York Stock Exchange, or such other national securities exchange on which such stock may be listed, during the 30-day period ending upon the date of the Change in Control, or, if higher, during the 30-day period ending upon the Termination Date (adjusted as appropriate for any changes in the capital structure of the Company) over (B) the option price for a share of the Company's stock subject to the option; and

(iv) An amount equal to the aggregate of the Company's contributions to the Company's savings plan in respect of Executive that were not vested on the day immediately prior to the Termination Date but that would have been vested at the end of the Covered Period if Executive had remained employed by the Company for the duration of that period.

For purposes of calculating the present value specified in Paragraph 8(c)(ii), the discount rate shall equal the PBGC interest rate for immediate annuities, as provided in 29 C.F.R. Part 4044, Appendix B, Table II or its successor, in effect for a valuation date coinciding with the Termination Date. If that rate should no longer be published, the discount rate shall be such closely comparable interest rate as the Company may reasonably determine.

(d) Payment Upon Termination During Initial Term. In the event that the Company terminates this Agreement during, or elects pursuant to Paragraph 17 hereof not to renew this Agreement at the end of, the Initial Term hereof for any reason other than Cause or Executive's death, the Company shall continue to pay to Executive (or in the event of his death following such termination, his legal representative) his Base Compensation under Paragraph 5(a) hereof, at the semi-monthly rate in effect immediately prior to the date of such termination ("Termination Date"), for a period of six months following the Termination Date.

9. Maximum Payment Upon Termination. Notwithstanding any other provision of this Agreement, if the Company should determine, in consultation with tax advisors satisfactory to Executive, that any amount payable to Executive pursuant to Paragraph 8 of this Agreement during the Extended Term, either alone or in conjunction with any payments or benefits to or on behalf of Executive pursuant to this Agreement or otherwise, would not be deductible by the Company, in whole or in part, for federal income tax purposes by reason of section 280G of the Internal Revenue Code or its successor, then the aggregate amount payable to Executive pursuant to Paragraph 8 shall be reduced to the largest amount that, in the opinion of such tax advisors, the Company could pay Executive under Paragraph 8 without any part of that amount being nondeductible by the Company as a result of Section 280G or its successor.

10. Mitigation. Executive shall not be required to mitigate the amount of any payment provided for in this Agreement either by seeking other employment or otherwise. The amount of any payment provided for herein shall not be reduced by any remuneration that Executive may earn from employment with another employer or otherwise following his Termination Date.

11. Noncompetition Covenant. For a period of one year following the

Termination Date and, if Executive has given a notice pursuant to Paragraph 8(b)(ii) hereof, for a period of 15 months following the giving of such notice, Executive shall assist no individual or entity other than the Company to acquire any entity with respect to which a proposal to acquire was presented to the Board prior to the beginning of the period.

12. Indemnification. The Company shall indemnify Executive to the fullest extent permitted by applicable Delaware law (as may be amended from time to time), including the advance of expenses permitted therein.

13. Performance. The failure of either party to this Agreement to insist upon strict performance of any provision hereof shall not constitute a waiver of its rights subsequently to insist upon strict performance of such provision or any other provision of this Agreement.

14. Non-Assignability. Neither party shall have the right to assign this Agreement or any rights or obligations hereunder without the consent of the other party.

15. Invalidity. If any provisions of this Agreement shall be found to be invalid by any court of competent jurisdiction, such finding shall not affect the remaining provisions of this Agreement, all of the which shall remain in full force and effect.

16. Arbitration and Legal Fees. In the event of any dispute regarding a refusal or failure by the Company to make payments or provide benefits hereunder for any reason, Executive shall have the right, in addition to all other rights and remedies provided by law, to arbitration of such dispute under the rules of the American Arbitration Asso-ciation, which right shall be invoked by serving upon the Company a notice to arbitrate, stating the place of arbitration, within ninety (90) days of receipt of notice in any form (including, without limitation, failure by the Company to respond to a notice from Executive within thirty (30) days) that the Company is withholding or proposes to withhold payments or provisions of benefits. In the event of any such dispute, whether or not Executive exercises his right to arbitration, if it shall ultimately be determined that the Company's refusal or failure to make payments or provide benefits hereunder was wrongful or otherwise inconsistent with the terms of this Agreement, the Company shall indemnify and hold harmless Executive from and against any and all expenses incurred in connection with such determination, including legal and other fees and expenses. Without limitation of or by the foregoing, the Company shall, within ten (10) days after notice from Executive, provide Executive with an irrevocable letter of credit in the amount of $100,000 from a bank satisfactory to Executive against which Executive may draw to pay legal fees and other fees and expenses in connection with any attempt by Executive to enforce any of his rights under this Agreement during the Extended Term. Said letter of credit shall not expire before ten (10) years following the date of this Agreement.

17. Renewal. If the Initial Term of this Agreement expires without there having been a Change in Control, this Agreement shall be renewed, as of the day following such expiration, unless, during the period beginning 90 days prior and ending 30 days prior to such day, either the Company or Executive shall have given notice to the other that this Agreement will not be renewed. If this Agreement is renewed as provided under this Paragraph, the new Agreement shall be identical to this Agreement (except insofar as the Company and Executive may otherwise agree in writing) except that the date of the new Agreement shall be as of the day following the expiration of the Initial Term of this Agreement.

18. Successors. This Agreement shall be binding upon and inure to the benefit of the Executive (and his personal representative), the Company and any successor organization or organizations that shall succeed to substantially all of the business and property of the Company, whether by means of merger, consolidation, acquisition of substantially all of the assets of the Company or otherwise, including by operation of law.

19. Set-off. The Company shall have no right of set-off or counterclaim in respect of any claim, debt or obligation against any payments or benefits provided for in this Agreement.

20. Amendments. No Amendment to this Agreement shall be effective unless in writing and signed by both the Company and Executive.

21. Governing Law. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Delaware.

22. Notices. Unless otherwise stated herein, all notices hereunder shall be in writing and shall be deemed to be given when personally delivered or mailed by United States registered or certified mail, postage prepaid, to, if to the Company, 909 Silver Lake Boulevard, Dover, Delaware 19904, and, if to Executive, the last address therefore shown on the records of the Company. Either the Company or Executive may, by notice to the other, designate an address other than the foregoing for the receipt of subsequent notices.

23. Withholding. The Company may withhold from any amounts payable to Executive hereunder all federal, state, city or other taxes that the Company may reasonably determine are required to be withheld pursuant to any applicable law or regulation.

24. Nature of Payments Upon Termination. All payments to Executive pursuant to Paragraphs 8 and 9 of this Agreement shall be considered as liquidated damages or, in the case of certain payments pursuant to Paragraph

8(d), as severance payments in consideration of Executive's past services to the Company, and no such payment shall be regarded as a penalty to the Company.

25. Acknowledgment. The parties hereto each acknowledge that each has read this Agreement and understands the same and that each enters into this Agreement freely and voluntarily.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

CHESAPEAKE UTILITIES CORPORATION

[CORPORATE SEAL] By: ________________________________

Title:

ATTEST:

____

Secretary

EXECUTIVE

____

____

CHAIRMAN OF THE BOARD

EMPLOYMENT AGREEMENT

THE CHAIRMAN OF THE BOARD EMPLOYMENT AGREEMENT ("Agreement"), dated this 1st day of January 2003, by and between Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), and Ralph J. Adkins ("Adkins").

WITNESSETH:

WHEREAS, the Company is currently obtaining the benefit of Adkins' services as an employee in the capacity of Chairman of the Company's Board of Directors ("Chairman") under an Executive Employment Agreement, dated January 1, 2001;

WHEREAS, the Company's Board of Directors (the "Board") has authorized the Company to agree to provide for Adkins' continued employment on the terms set forth in this Agreement; and

WHEREAS, Adkins is willing, in consideration of the covenants hereinafter provided, to continue to be employed by the Company in the capacity of Chairman and to render services incident to such position during the term of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the Company and Adkins hereby agree as follows:

1. Employment. The Company agrees to employ Adkins, and Adkins agrees to accept employment, as Chairman, with such reasonable duties and responsibilities as are consistent with the By-laws of the Company, as of the date hereof, and the Position Description dated January 1, 2003, appended to this Agreement.

2. Term of Agreement. The term of Adkins' employment under this Agreement (the "Term") shall extend until May 18, 2004, unless such employment is earlier terminated (i) by either the Company or Adkins upon 90 days prior written notice to the other or (ii) otherwise accordance with the provisions of Section 8.

3. Time. Adkins agrees to devote sufficient time consistent with the duties of the Chair and, during that time, his full best efforts for the benefit of the Company and its subsidiaries, and not to serve any other business enterprise or organization in any capacity during the Term, without the prior written consent of the Company, which consent shall not be unreasonably withheld.

4. Office. During the Term, Adkins shall serve as the Company's Chairman and act as the liaison between the Board of Directors and Management.

5. Compensation. During the Term, the Company shall compensate Adkins for his services hereunder at a rate of $200,000 per annum, payable in equal semimonthly installments, or such greater or lesser amount as the Board may determine ("Base Compensation"). The Base Compensation rate shall be reviewed annually and may be increased or decreased from time to time.

6. Expenses. During the Term, the Company shall pay all necessary and reasonable business expenses incurred by Adkins on behalf of the Company in the course of his employment under this Agreement, including, without limitation, expenses incurred in the conduct of the Company's business while away from his domicile and expenses for travel, meals, lodging, entertainment and related expenses that are for the benefit of the Company.

7. Other Benefits.

(a) During the Term, Adkins shall be entitled to participate in all profit-sharing, insurance, medical and retirement benefit plans, together with vacation and other employee benefits of the Company, now in effect or as hereafter amended or established, in which Company executive employees are permitted to participate. Adkins' participation shall be in accordance with the terms and provisions of such plans.

(b) During the Term, the Company shall furnish Adkins with a suitable office, necessary administrative support and customary furniture and furnishings for such office. The Company further agrees that Adkins shall have the use of a Company-owned or Company-leased and maintained automobile, new every three years, of a kind and model appropriate to his position with the Company.

8. Termination.

(a) Termination for Cause. Adkins' employment under this Agreement may be terminated by the Company at any time for "cause". In the event of termination for "cause," Adkins (i) shall only be entitled to the payment of the compensation and benefits contemplated by Section 5, 6, and 7 through the date termination (except for any benefits that the Company may be required to continue to provide by law) and (ii) and shall not be entitled to any severance benefits under this Agreement. Unless a Change in Control has occurred, "cause" shall be as the Board may reasonably determine. Following a Change in Control, the Company may terminate the Adkins' employment for "cause" only if Adkins engages in:

(i) conduct that constitutes a felony under the laws of the United States or a state in which Adkins works or resides;

(ii) an act or acts of dishonesty resulting, or intended to result, directly or indirectly in material gain to or personal enrichment of Adkins at the Company's expense;

(iii) a deliberate and intentional refusal (except by reason of incapacity due to illness or accident) to comply with the provisions of Section 1, provided that such breach shall have resulted in demonstrably material injury to the Company, and Adkins shall have failed to remedy such breach within thirty days after notice received from the Secretary of the Company demanding that Adkins remedy such breach; or

(iv) conduct by Adkins that is materially injurious to the Company, if such conduct was undertaken without good faith and the reasonable belief that such conduct was in the best interest of the Company.

(b) Termination Following a Change in Control. After a Change in Control:

(i) the Company may terminate the Adkins' employment under this Agreement at any time and for any reason; and

(ii) Adkins may terminate his employment at any time following the occurrence of any of the following events:

(A) failure to elect or reelect Adkins to, or removal of Adkins from, the position described in Section 1;

(B) Adkins' good-faith determination that there has been a significant change in the nature or scope of his authorities, powers, functions, duties or responsibilities attached to the position described in Section 1 or a reduction in his compensation as provided in Section 5 or his benefits as provided in Section 7, which change or reduction is not remedied within thirty days after notice to the Company by Adkins;

(C) any other breach by the Company of any provision of this Agreement that is not remedied within 30 days after notice to the Company by Adkins; or

(D) the liquidation, dissolution, consolidation or merger of the Company or transfer of all or a significant portion of its assets, unless a successor or successors (by merger, consolidation or otherwise) to which all or a significant portion of its assets has been transferred shall have assumed all duties and obligations of the Company under this Agreement; provided that in any event set forth in this Section 8(b)(ii), Adkins shall have elected to terminate his employment under this Agreement upon not less than 40 and not more than 90 days' notice to the Board, attention of the Secretary of the Company, given within three calendar months after (1) failure to be so elected or reelected, or such removal, (2) expiration of the 30-day cure period with respect to such event, or (3) the closing date of such liquidation, dissolution, consolidation, merger or transfer of assets.

An election by Adkins to terminate his employment under the provisions of this Section 8(b)(ii) shall not be deemed a voluntary termination of employment by Adkins for the purposes of this Agreement or any plan or practice of the Company.

(c) Payment Upon Termination. In the event that (i) the Company terminates Adkins' employment under this Agreement for any reason other than Cause or Adkins' death or (ii) Adkins terminates his employment under this Agreement pursuant to Section 8(B)(ii), the Company shall continue to pay to Adkins (or in the event of his death following such termination, his legal representative) his Base Compensation under Section 5, at the semi-monthly rate in effect immediately prior to the date of such termination, until May 31, 2004.

(d) Change In Control. For the purposes of this Agreement, Change in Control shall mean a change in the control of the Company during the Term, which shall be deemed to have occurred if:

(i) The registration of the Company's voting securities under the Securities Exchange Act of 1934, as amended (the "1934 Act"), terminates or the Company shall have fewer than 300 stockholders of record; or

(ii) any person or group (within the meaning of sections 13(d) and 14(d) of the 1934 Act), other than the Company or any of its majority-controlled subsidiaries, becomes the beneficial owner (within the meaning of Rule 13d-3 under the 1934 Act) of 30 percent or more of the combined voting power of the Company's then outstanding voting securities; or

(iii) a tender offer or exchange offer (other than an offer by the Company or a majority-controlled subsidiary), pursuant to which 30 percent or more of the combined voting power of the Company's then outstanding voting securities is purchased, expires; or

(iv) the stockholders of the Company approve an agreement to merge or consolidate with another corporation (other than a majority-controlled subsidiary of the Company) unless the stockholders of the Company immediately before the merger or consolidation are to own more than 70 percent of the combined voting power of the resulting entity's voting securities; or

(v) the Company's stockholders approve an agreement (including, without limitation, a plan of liquidation) to sell or otherwise dispose of all or substantially all of the business or assets of the Company; or

(vi) during any period of two consecutive years, individuals who, at the beginning of such period, constituted the Board cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company's stockholders of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period; or

(vii) the acquisition of direct or indirect beneficial ownership of more than 15 percent of the Company's then outstanding voting securities by any person or group is approved over the formal objection of the Company by the Securities and Exchange Commission pursuant to section 9 of the Public Utility Holding Company Act of 1935, as amended.

However, no Change in Control shall be deemed to have occurred by reason of any event involving a transaction in which Adkins, or a group of persons or entities with which Adkins acts in concert, acquires, directly or indirectly, more than 30 percent of the common stock or the business or assets of the Company; any event involving or arising out of a proceeding under Title 11 of the United States Code (or the provisions of any future United States bankruptcy law), an assignment for the benefit of creditors or an insolvency proceeding under state or local law; or any event constituting approval by the Company's stockholders of a merger or consolidation if a majority of the group consisting of the President and Vice Presidents of the Company who are parties to agreements conferring rights upon a Change in Control shall have agreed in writing prior to such approval that approval shall be deemed not to constitute a Change in Control.

9. Mitigation. Adkins shall not be required to mitigate the amount of any payment provided for in this Agreement either by seeking other employment or otherwise. The amount of any payment provided for herein shall not be reduced by any remuneration that Adkins may earn from employment with another employer or otherwise following the termination of his employment under this Agreement.

10. Noncompetition Covenant. For a period of one year following the termination of Adkins' employment under this Agreement or, if Adkins has given a notice pursuant to Section 8(b)(ii), for a period of 15 months following the giving of such notice, Adkins shall assist no individual or entity other than the Company to acquire any entity with respect to which a proposal to acquire the entity was presented to the Board prior to the beginning of the period.

11. Indemnification. The Company shall indemnify Adkins to the fullest extent permitted by applicable Delaware law (as it may be amended from time to time), including the advance of expenses permitted herein.

12. Performance. The failure of either party to this Agreement to insist upon strict performance of any provision hereof shall not constitute a waiver of its rights subsequently to insist upon strict performance of such provision or any other provision of this Agreement.

13. Non-Assignability. Neither party shall have the right to assign this Agreement or any rights or obligations hereunder without the consent of the other party.

14. Invalidity. If any provisions of this Agreement shall be found to be invalid by any court of competent jurisdiction, such finding shall not affect the remaining provisions of this Agreement, all of which shall remain in full force and effect.

15. Arbitration and Legal Fees. In the event of any dispute regarding a refusal or failure by the Company to make payments or provide benefits hereunder for any reason, Adkins shall have the right, in addition to all other rights and remedies provided by law, to arbitration of such dispute under the rules of the American Arbitration Association, which right shall be invoked by serving upon the Company a notice to arbitrate, stating the place of arbitration, within 90 days of receipt of notice in any form (including, without limitation, failure by the Company to respond to a notice from Adkins within 30 days) that the Company is withholding or proposes to withhold payments or provisions of benefits. In the event of any such dispute, whether or not Adkins exercises his right to arbitration, if it shall ultimately be determined that the Company's refusal or failure to make payments or provide benefits hereunder was wrongful or otherwise inconsistent with the terms of this Agreement, the Company shall indemnify and hold harmless Adkins from and against any and all expenses incurred in connection with such determination, including legal and other fees and expenses.

16. Successors. This Agreement shall be binding upon and inure to the benefit of Adkins (and his personal representative), the Company and any successor organization or organizations that shall succeed to substantially all

of the business and property of the Company, whether by means of merger, consolidation, acquisition of substantially all of the assets of the Company or otherwise, including by operation of law.

17. Set-off. The Company shall have no right of set-off or counterclaim in respect of any claim, debt or obligation against any payments or benefits provided for in this Agreement.

18. Amendments. No amendment to this Agreement shall be effective unless in writing and signed by both the Company and Adkins.

19. Governing Law. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Delaware.

20. Notices. Unless otherwise stated herein, all notices hereunder shall be in writing and shall be deemed to be given when personally delivered or mailed by United States registered or certified mail, postage prepaid, to, if to the Company, 909 Silver Lake Boulevard, Dover, Delaware 19901, and, if to Adkins, the last address therefor shown on the records of the Company. Either the Company or Adkins may, by notice to the other, designate an address other than the foregoing for the receipt of subsequent notices.

21. Withholding. The Company may withhold from any amounts payable to Adkins hereunder all federal, state, city or other taxes that the Company may reasonably determine are required to be withheld pursuant to any applicable law or regulation.

22. Nature of Payments Upon Termination. All payments to Adkins pursuant to Section 8 be considered as liquidated damages or as severance payments in consideration of Adkins' past services to the Company, and no such payment shall be regarded as a penalty to the Company.

23. Acknowledgment. The parties hereto each acknowledge that each has read this Agreement and understands the same and that each enters into this Agreement freely and voluntarily.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

CHESAPEAKE UTILITIES CORPORATION

[CORPORATE SEAL] By: ___________________________________
Name:
Title:

ATTEST:

____
Secretary

CHAIRMAN

____
Ralph J. Adkins

CHAIRMAN OF THE BOARD

POSITION DESCRIPTION
JANUARY 1, 2003

Provide leadership to the Board, and serve as Chair of the Executive Sessions.

Acts as a liaison between the Board and management.

Along with other Directors, ensure the proper functioning of the Board in fulfilling its approved role and responsibilities.

Schedule meetings of the full Board and works with committee chairmen to coordinate the schedule of meetings for committees.

Organizes and presents agenda for regular and special board meetings based on input from the Chief Executive Officer and the other directors.

Ensure proper flow of information to the Board, reviewing adequacy and timing of documentary materials in support of management's proposals.

Ensures adequate lead time for effective study and discussion of business under consideration.

Oversees the preparation and distribution of proxy materials to stockholders.

Helps the Board fulfill the goals it sets by assigning specific tasks to members of the Board.

Identifies guidelines for the conduct of the directors and ensures that each director is making a significant contribution.

Together with the Chief Executive Officer, represents the Company to external groups: shareholders, bankers, local communities, federal, state and local governments.

Working with the Governance Committee, ensures proper committee structure including assignments of members and committee chairmen.

Carries out other duties as requested by the Board as a whole, depending on need and circumstances.

PERFORMANCE SHARE AGREEMENT

PURSUANT TO THE

CHESAPEAKE UTILITIES CORPORATION
PERFORMANCE INCENTIVE PLAN

AGREEMENT dated as of January 1, 2003, and entered into, in duplicate, by and between Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), and [name of officer] (the "Grantee") who resides at [address of officer].

WITNESSETH that:

WHEREAS, the Chesapeake Utilities Corporation Performance Incentive Plan (the "Plan") has been duly adopted by action of the Company's Board of Directors (the "Board") as of January 1, 1992; and

WHEREAS, the Committee of the Board of Directors of the Company referred to in the Plan (the "Committee") has determined that it is in the best interests of the Company to grant the Performance Share Award described herein pursuant to the Plan; and

WHEREAS, the shares of the Common Stock of the Company that are subject to this Agreement, when added to the other shares of Common Stock that are subject to awards granted under the Plan, do not exceed the total number of shares of Common Stock with respect to which awards are authorized to be granted under the Plan;

NOW, THEREFORE, it is hereby covenanted and agreed by and between the Company and the Grantee as follows:

Section 1. Performance Share Award

The Company hereby grants to the Grantee a Performance Share Award for the year ending December 31, 2003 (the "Award Year"). As more fully described herein, the Grantee may earn a maximum total of [number of shares awarded] (the "Contingent Performance Shares") upon the Company's achievement of the Performance Goals set forth in Section 2. Alternatively, the Grantee may elect to receive [number of shares awarded] (the "Forfeitable Performance Shares"), as detailed in Section 3, in lieu of receiving any Contingent Performance Shares. The Forfeitable Performance Shares shall be subject to forfeiture conditions, as set forth in Section 3(c).

Section 2. Contingent Performance Shares

(a) As soon as practicable after the Company's independent auditors have certified the Company's financial statements for the Award Year, the Committee shall determine for purposes of this Agreement the Company's (1) earnings growth ("EG"), (2) growth in non-regulated investments ("NRIG") and (3) Shareholder Value as of the end of the Award Year. The EG, NRIG and Shareholder Value shall be determined by the Committee based on financial results reported to shareholders in the Company's annual reports and shall be subject to adjustment by the Committee for extraordinary events during the Award Year. The Committee shall promptly notify the Grantee of its determination.

(b) The Grantee may earn up to [number of shares awarded] Contingent Performance Shares (the "Maximum Award") as follows:

(1) The performance measured for Shareholder Value will be the value of $10,000 invested in the Company stock compared to a Utility Index. If the Company's performance exceeds the Utility Index, the Grantee will be eligible to earn up to 30% of the Maximum Award for the Award Year. If the value of $10,000 invested for the Award Year does not exceed the Utility Index for the Award Year, the Grantee shall not earn any Contingent Performance Shares under this Paragraph (b)(1).

[Note: Paragraphs (2) and (3) below apply to Messrs. Schimkaitis, McMasters and Boyles]

(2) The performance measured for EG will be based upon the performance of the Company's regulated natural gas operations and the Company's Delmarva propane distribution operations.

a. The performance measured for EG for the Company's regulated natural gas operations will be based upon achieving at least 90% of the average allowed pre-tax return on investment ("target return on investment") in the Award Year. If the Company's regulated operations achieve the target return on investment in the Award Year, the Grantee will be eligible to earn at least 25% of the Maximum Award. If the target return on investment is not achieved in the Company's regulated natural gas operations, the Grantee shall not earn any Contingent Performance Shares under this paragraph (b)(2)(a).

b. The performance measured for EG for the Company's Delmarva propane distribution operation will be based upon generating at least the target level of earnings, before interest expense and income taxes ("target EBIT"), for the Award Year. If the Delmarva propane distribution operation achieves the target EBIT, the Grantee will be eligible to earn 20% of the Maximum Award. If the target EBIT in the Company's Delmarva propane distribution operation is not achieved, the Grantee will not be eligible to any Contingent Performance Shares under this paragraph (b)(2)(b).

(3) The performance measured for growth in non-regulated investments ("NRIG") will be based upon execution of the Company's long-term strategic plan, assuming attainment of pre-authorized milestones and objectives. If the long-term strategy is executed, the Grantee will be eligible to earn 25% of the Maximum Award. If the long-term strategic plan is not executed, after approval from the Company's Board of Directors, the Grantee shall not earn any Contingent Performance Shares under this paragraph (b)(3).

[Note: The criteria below applies to Mr. Thompson]

(c) The Grantee may earn up to [number of shares] Contingent Performance Shares at the end of the Award Period (the "Three-Year Award") as follows, subject to the restrictions specified in Section 3(a), and further described in Section 2(c)(2) below:

(1) The performance measured for EG will be based upon the Company's regulated natural gas operations achieving at least 90% of the average allowed pre-tax return on investment ("target return on investment"). If the Company's regulated operations achieve the target return on investment over the Award Period, the Grantee will be eligible for the Three-Year Award. If the target return on investment is not achieved in the Company's regulated natural gas operations, the Grantee shall not earn any Contingent Performance Shares under this Paragraph (c)(1).

(2) If the Grantee is eligible to receive the Three-Year Award, but has received Forfeitable Performance Shares for 2003 and/or 2004, the number of Contingent Performance Shares awarded at the end of the Award Period shall equal [number of shares] less any Forfeitable Performance Shares received.

[Note: The remainder of the agreement applies to all officers; however, in Mr. Thompson's agreement, the paragraph lettering is different.]

(c) Contingent Performance Shares that are earned by the Grantee pursuant to this Section 2 shall be issued promptly, without payment of consideration by the Grantee. The Grantee shall have the right to vote the Contingent Performance Shares and to receive the dividends distributable with respect to such shares on and after, but not before, the date on which the Grantee is recorded on the Company's ledger as holder of record of the Contingent Performance Shares (the "Issue Date"). If, however, the Grantee receives shares of Common Stock as part of any dividend or other distribution with respect to the Contingent Performance Shares, such shares shall be treated as if they are Contingent Performance Shares, and such shares shall be subject to all of the terms and conditions imposed by this Section 2.

(d) Sale, transfer, pledge, or hypothecation of the Contingent Performance Shares shall be prohibited for a period of three (3) years after the Issue Date (the "Limitation Period"), and the Performance Shares shall bear a restrictive legend to that effect. Any attempt to dispose of Contingent Performance Shares in contravention of this Agreement shall be ineffective. Upon expiration of the Limitation Period, the transfer restrictions imposed by this Section shall expire, and new certificates representing the Contingent Performance Shares, without the restrictive legend described in this paragraph (d), shall be issued, subject to the provisions of paragraph (e) of this Section 2.

(e) The Performance Shares will be not registered for resale under the Securities Act of 1933 or the laws of any state except when and to the extent determined by the Board pursuant to a resolution. Until a registration statement is filed and becomes effective, however, transfer of the Contingent Performance Shares after expiration of the Limitation Period shall require the availability of an exemption from such registration, and prior to the issuance of new certificates, the Company shall be entitled to take such measures as it deems appropriate (including but not limited to obtaining from the Grantee an investment representation letter and/or further legending the new certificates) to ensure that the Contingent Performance Shares are not transferred in the absence of such exemption.

(f) In the event of a Change in Control, as defined in the Plan, during the Award Year, the Grantee shall earn at least the Maximum Award of Contingent Performance Shares set forth in this Section 2, as if all employment and performance criteria were satisfied, pro rated based on the proportion of the Award Year that has expired as of the date of such Change in Control.

(g) If, during the Award Year, the Grantee is separated from employment, Contingent Performance Shares shall be deemed earned or forfeited as follows:

(1) Upon voluntary termination by the Grantee (other than for retirement at age 65 or as accepted by the Committee) or termination by the Company for failure of job performance or other just cause as determined by the Committee, all unearned Contingent Performance Shares shall be forfeited immediately;

(2) If the Grantee separates from employment by reason of death or total and permanent disability (as determined by the Committee), the number of Contingent Performance Shares that would otherwise have been earned at the end of the Award Year shall be reduced by pro rating such Contingent Performance Shares based on the proportion of the Award Year during which the Grantee was employed by the Company, unless the Committee determines that the Contingent Performance Shares shall not be so reduced;

(3) Retirement of the Grantee at age 65 or as accepted by the Committee shall not affect the Contingent Performance Shares, which shall continue to be earned through the remainder of the Award Year, as set forth above.

(h) The Grantee shall be solely responsible for any federal, state and local income taxes imposed in connection with the delivery of Contingent Performance Shares. Prior to the transfer of any Contingent Performance Shares to the Grantee, the Grantee shall remit to the Company an amount sufficient to satisfy any federal, state, local and other withholding tax requirements. The Grantee may elect to have all or part of any withholding tax obligation satisfied by having the Company withhold shares otherwise deliverable to the Grantee as Contingent Performance Shares, unless the Committee determines otherwise by resolution. If the Grantee fails to make such payments or election, the Company and its subsidiaries shall, to the extent permitted by law, have the right to deduct from any payments of any kind otherwise due to the Grantee any taxes required by law to be withheld with respect to the Contingent Performance Shares.

Section 3. Forfeitable Performance Shares

(a) In lieu of earning Contingent Performance Shares, the Grantee may elect to receive 2,400 Forfeitable Performance Shares, irrespective of whether the Company meets any Performance Goals. The Grantee must make any such election on or before September 30, 2003, and the election must be made in writing, in a manner prescribed by the Committee. Once made, the election is irrevocable. If a Grantee makes such an election, he shall not receive any Contingent Performance Shares under this Agreement.

(b) Any Forfeitable Performance Shares received by the Grantee pursuant to this Section 3 shall be issued as promptly as possible after December 31, 2003, without payment of consideration by the Grantee. The Grantee shall have the right to vote the Forfeitable Performance Shares and to receive the dividends distributable with respect to such shares on and after, but not before, the date on which the Grantee is recorded on the Company's ledger as holder of record of the Forfeitable Performance Shares (the "Issue Date"). If, however, the Grantee receives shares of Common Stock as part of any dividend or distribution with respect to the Forfeitable Performance Shares, such shares shall be treated as if they are Forfeitable Performance Shares, and such shares shall be subject to all of the terms and conditions imposed by this Section 3.

(c) The Forfeitable Performance Shares shall be subject to the following restrictions:

(1) Sale, transfer, pledge or hypothecation of the Forfeitable Performance Shares shall be prohibited for a period of three (3) years after the Issue Date (the "Restriction Period"), and the certificates evidencing the Forfeitable Performance Shares shall bear an appropriate restrictive legend that refers to the terms, conditions, and restrictions set forth in this Agreement. Any attempt to dispose of Forfeitable Performance Shares in contravention of this Agreement shall be ineffective. Upon expiration of the Restriction Period, the transfer restrictions imposed by this Section shall expire, and new certificates representing the Forfeitable Performance Shares, without the restrictive legend described in this paragraph (c)(1), shall be issued, subject to the provisions of paragraph (f) of this Section 3.

(2) If, during the Restriction Period, the Grantee separates from employment for any reason other than death, normal retirement, total and permanent disability (as determined by the Committee), or involuntary termination without cause (as determined by the Committee), all Forfeitable Performance Shares shall be forfeited immediately.

(d) All restrictions under paragraph (c) of this Section 3 shall immediately expire on the earliest of: (A) the Grantee's separation from employment because of death, total and permanent disability (as determined by the Committee), or involuntary termination without cause (as determined by the Committee), (B) a Change in Control, as defined in the Plan, or (C) the end of the Restriction Period.

(e) If, after the Grantee has made an election to receive Forfeitable Performance Shares pursuant to Section 3(a), a Change in Control, as defined in the Plan, occurs during the Award Year, the Grantee shall receive at least the total number of Forfeitable Performance Shares due under this Agreement, pro rated based on the proportion of the Award Year that has expired as of the date of such Change in Control. Pursuant to Section 3(d), such Shares shall not be subject to any of the restrictions imposed by this Section.

(f) The Forfeitable Performance Shares shall be not registered for resale under the Securities Act of 1933 or the laws of any state except when and to the extent determined by the Board pursuant to a resolution. Until a registration statement is filed and becomes effective, however, transfer of the Forfeitable Performance Shares after expiration of the Restriction Period shall require the availability of an exemption from such registration, and prior to the issuance of new certificates, the Company shall be entitled to take such measures as it deems appropriate (including but not limited to obtaining from the Grantee an investment representation letter and/or further legending the new certificates) to ensure that the Forfeitable Performance Shares are not transferred in the absence of such exemption.

(g) The Grantee shall be solely responsible for any federal, state and local income taxes imposed in connection with receipt of the Forfeitable Performance Shares:

(1) The Grantee agrees that, no later than the date that the restrictions set forth in Section 3(c) lapse, he shall remit to the Company an amount sufficient to satisfy any federal, state, local and other withholding tax requirements.

(2) The Grantee may elect to have all or part of any withholding tax obligation satisfied by having the Company withhold shares otherwise deliverable to the Grantee in connection with the Award of Restricted Stock, unless the Committee determines otherwise by resolution.

(3) If the Grantee properly elects, within 30 days of the Issue Date, to include in gross income for federal income tax purposes an amount equal to the fair market value of the Forfeitable Performance Shares, he shall make arrangements satisfactory to the Committee to remit in the year of issue an amount sufficient to satisfy any federal, state, local and other withholding tax requirements with respect to such Forfeitable Performance Shares.

(4) If the Grantee fails to make satisfactory arrangements to meet all withholding tax obligations, the Company and its subsidiaries shall, to the extent permitted by law, have the right to deduct from any payments of any kind otherwise due to the Grantee any taxes required by law to be withheld with respect to the Forfeitable Performance Shares.

Section 4. Additional Conditions to Issuance of Shares

Each transfer of Contingent Performance Shares or Forfeitable Performance Shares (together, the "Award Shares") shall be subject to the condition that if at any time the Committee shall determine, in its sole discretion, that it is necessary or desirable as a condition of, or in connection with, transfer of Award Shares (i) to satisfy withholding tax or other withholding liabilities, (ii) to effect the listing, registration or qualification on any securities exchange or under any state or federal law of any Shares deliverable in connection with such exercise, or (iii) to obtain the consent or approval of any regulatory body, then in any such event such transfer shall not be effective unless such withholding, listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

Section 5. Adjustment of Shares

(a) If the Company shall become involved in a merger, consolidation or other reorganization, whether or not the Company is the surviving corporation, any right to earn Contingent Performance Shares or to elect to receive Forfeitable Performance Shares shall be deemed a right to earn or to elect to receive the consideration into which the shares of Common Stock represented by the Contingent Performance Shares or by the Forfeitable Performance Shares would have been converted under the terms of the merger, consolidation or other reorganization. If the Company is not the surviving corporation, the surviving corporation (the "Successor") shall succeed to the rights and obligations of the Company under this Agreement.

(b) If any subdivision or combination of shares of Common Stock or any stock dividend, capital reorganization or recapitalization occurs after the adoption of the Plan, the Committee shall make such proportionate adjustments as are appropriate to the number of Contingent Performance Shares to be earned and/or to the number of Forfeitable Performance Shares to be received in order to prevent the dilution or enlargement of the rights of the Grantee.

Section 6. No Right to Employment

Nothing contained in this Agreement shall be deemed by implication or otherwise to confer upon the Grantee any right to continued employment by the Company or any affiliate of the Company.

Section 7. Notice

Any notice to be given hereunder by the Grantee shall be sent by mail addressed to Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, Delaware 19904, for the attention of the Committee, c/o the Secretary, and any notice by the Company to the Grantee shall be sent by mail addressed to the Grantee at the address of the Grantee shown on the first page hereof. Either party may, by notice given to the other in accordance with the provisions of this Section, change the address to which subsequent notices shall be sent.

Section 8. Assumption of Risk

It is expressly understood and agreed that the Grantee assumes all risks incident to any change hereafter in the applicable laws or regulations or incident to any change in the market value of the Award Shares.

Section 9. Terms of Plan

This Agreement is entered into pursuant to the Plan (a copy of which has been delivered to the Grantee). This Agreement is subject to all of the terms and provisions of the Plan, which are incorporated into this Agreement by reference, and the actions taken by the Committee pursuant to the Plan. In the event of a conflict between this Agreement and the Plan, the provisions of the Plan shall govern. All determinations by the Committee shall be in its sole discretion and shall be binding on the Company and the Grantee.

Section 10. Governing Law; Amendment

This Agreement shall be governed by, and shall be construed and administered in accordance with, the laws of the State of Delaware (without regard to its choice of law rules) and the requirements of any applicable federal law. This Agreement may be modified or amended only by a writing signed by the parties hereto.

Section 11. Terms of Agreement

This Agreement shall remain in full force and effect and shall be binding on the parties hereto for so long as any Award Shares issued to the Grantee under this Agreement continue to be held by the Grantee.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its corporate name, and the Grantee has executed the same in evidence of the Grantee's acceptance hereof, upon the terms and conditions herein set forth, as of the day and year first above written.

CHESAPEAKE UTILITIES CORPORATION

By: ___________________________________

____
Grantee

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
EXHIBIT 12
RATIO OF EARNINGS TO FIXED CHARGES

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000
INCOME FROM CONTINUING OPERATIONS	$ 5,645,153	$ 6,721,537	$ 7,489,201
Add:			
Income taxes	3,650,154	4,252,275	4,496,592
Portion of rents representative of interest factor	370,061	275,773	156,680
Interest on indebtedness	4,968,652	5,178,495	4,398,266
Amortization of debt discount and expense.	89,387	101,183	111,122
EARNINGS AS ADJUSTED.	$14,723,407	$16,529,263	$16,651,861
FIXED CHARGES			
Portion of rents representative of interest factor	$ 370,061	$ 275,773	$ 156,680
Interest on indebtedness	4,968,652	5,178,495	4,398,266
Amortization of debt discount and expense.	89,387	101,183	111,122
FIXED CHARGES	$ 5,428,100	$ 5,555,451	$ 4,666,068
RATIO OF EARNINGS TO FIXED CHARGES.	2.71	2.98	3.57

CHESAPEAKE UTILITIES CORPORATION
EXHIBIT 21
SUBSIDIARIES OF THE REGISTRANT

SUBSIDIARIES	STATE INCORPORATED
Eastern Shore Natural Gas Company	Delaware
Sharp Energy, Inc.	Delaware
Chesapeake Service Company	Delaware
Xeron, Inc.	Mississippi
Sam Shannahan Well Company, Inc.	Maryland
Sharp Water, Inc.	Delaware

SUBSIDIARIES OF SHARP ENERGY, INC.	STATE INCORPORATED
Sharpgas, Inc.	Delaware
Tri-County Gas Co., Incorporated	Maryland

SUBSIDIARIES OF CHESAPEAKE SERVICE COMPANY	STATE INCORPORATED
Skipjack, Inc.	Delaware
BravePoint, Inc.	Georgia
Chesapeake Investment Company	Delaware
Eastern Shore Real Estate, Inc.	Maryland

SUBSIDIARIES OF SHARP WATER, INC.	STATE INCORPORATED
EcoWater Systems of Michigan, Inc.	Michigan
Carroll Water Systems, Inc.	Maryland
Absolute Water Care, Inc.	Florida
Sharp Water of Florida, Inc.	Delaware
Sharp Water of Idaho, Inc.	Delaware
Sharp Water of Minnesota, Inc.	Delaware

Exhibit 99.1

CERTIFICATE OF CHIEF EXECUTIVE OFFICER

OF

CHESAPEAKE UTILITIES CORPORATION

(PURSUANT TO 18 U.S.C. SECTION 1350)

I, John R. Schimkaitis, President and Chief Executive Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2002, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(1) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/s/ JOHN R. SCHIMKAITIS

John R. Schimkaitis
March 28, 2003

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99.2

CERTIFICATE OF CHIEF FINANCIAL OFFICER

OF

CHESAPEAKE UTILITIES CORPORATION

(PURSUANT TO 18 U.S.C. SECTION 1350)

I, Michael P. McMasters, Vice President, Chief Financial Officer and Treasurer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2002, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(1) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/s/ MICHAEL P. MCMASTERS

Michael P. McMasters
March 28, 2003

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.