

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, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-8858

**UNITIL CORPORATION**

*(Exact name of registrant as specified in its charter)*

**New Hampshire**  
(State or other jurisdiction of  
incorporation or organization)

**02-0381573**  
(I.R.S. Employer Identification No.)

**6 Liberty Lane West, Hampton, New Hampshire**  
(Address of principal executive offices)

**03842-1720**  
(Zip Code)

**Registrant's telephone number, including area code: (603) 772-0775**

Securities registered pursuant to Section 12(b) of the Act:

**Title of Each Class**  
Common Stock, No Par Value

**Name of Exchange on Which Registered**  
American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

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  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

Based on the closing price of March 1, 2002, the aggregate market value of common stock held by non-affiliates of the registrant was \$121,438,618.

The number of common shares outstanding of the registrant was 4,743,696 as of March 1, 2002.

**Documents Incorporated by Reference:**

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 18, 2002, are incorporated by reference into Part III of this Report.

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**FORM 10-K**  
**For the Fiscal Year Ended December 31, 2001**  
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PART I

*Item 1. Business*

**UNITIL Corporation**

Unitil Corporation (Unitil or the Company) was incorporated under the laws of the State of New Hampshire in 1984. Unitil is a registered public utility holding company under the Public Utility Holding Company Act of 1935 (the 1935 Act), and is the parent company of the Unitil Companies. The following companies are wholly owned subsidiaries of Unitil:

| Unitil Corporation<br>Subsidiaries              | State and Year<br>of Organization | Principal Type<br>of Business              |
|---|-----------------------------------|--|
| Concord Electric Company (CECo)                 | NH - 1901                         | Retail Electric Distribution Utility       |
| Exeter & Hampton Electric Company (E&H)         | NH - 1908                         | Retail Electric Distribution Utility       |
| Fitchburg Gas and Electric Light Company (FG&E) | MA - 1852                         | Retail Electric & Gas Distribution Utility |
| Unitil Power Corp. (Unitil Power)               | NH - 1984                         | Wholesale Electric Power Utility           |
| Unitil Realty Corp. (Unitil Realty)             | NH - 1986                         | Real Estate Management                     |
| Unitil Service Corp. (Unitil Service)           | NH - 1984                         | System Service Company                     |
| Unitil Resources, Inc. (Unitil Resources)       | NH - 1993                         | Energy Brokering and Advisory Services     |
| Usource, Inc.                                   | NH - 2000                         | Energy Brokering and Advisory Services     |
| Usource I, L.C. (Usource)                       | NH - 2000                         | Energy Brokering and Advisory Services     |

Unitil's principal business is the retail sale and distribution of electricity and related services in several cities and towns in the seacoast and capital city areas of New Hampshire, and both electricity and gas and related services in north central Massachusetts, through Unitil's three wholly owned retail distribution utility subsidiaries (CECo, E&H and FG&E, collectively referred to as the Retail Distribution Utilities). The Company's wholesale electric power utility subsidiary, Unitil Power Corp., principally provides all the electric power supply requirements to CECo and E&H for resale at retail.

Unitil has three additional wholly owned subsidiaries: Unitil Realty Corp. (Unitil Realty), Unitil Service Corp. (Unitil Service) and Unitil Resources, Inc. (Unitil Resources). Unitil Realty owns and manages the Company's corporate office building and property located in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Service provides, at cost, centralized management, administrative, accounting, financial, engineering, information systems, regulatory, planning, procurement, and other services to the Unitil System companies. Unitil Resources is the Company's wholly owned non-utility subsidiary and has been authorized by the Securities and Exchange Commission, pursuant to the rules and regulations of the 1935 Act, to engage in business transactions as a competitive marketer of electricity, gas and other energy commodities in wholesale and retail markets, and to provide energy brokering, consulting and management related services within the United States. Usource, Inc. and Usource L.L.C. (Usource) are wholly owned subsidiaries of Usource, Inc. Usource provides energy brokering services, as well as related energy consulting and marketing services.

## **UTILITY OPERATIONS**

CECo is engaged principally in the distribution and sale of electricity at retail to approximately 28,000 customers in the City of Concord, which is the state capital, and twelve surrounding towns, all in New Hampshire. CECo's service area consists of approximately 240 square miles in the Merrimack River Valley of south central New

Hampshire. The service area includes the City of Concord and major portions of the surrounding towns of

Bow, Boscawen, Canterbury, Chichester, Epsom, Salisbury and Webster, and limited areas in the towns of Allenstown, Dunbarton, Hopkinton, Loudon and Pembroke.

The State of New Hampshire's government operations are located within CECo's service area, including the executive, legislative, judicial branches and offices and facilities for all major state government services. In addition, CECo's service area is a retail trading center for the north central part of the state and has diversified businesses relating to insurance, printing, electronics, granite, belting, plastic yarns, furniture, machinery, sportswear and lumber. Of CECo's 2001 retail electric revenues, approximately 33% were derived from residential sales, 41% from commercial, government and nonmanufacturing sales, 25% from industrial/manufacturing sales and 1% from other sales.

E&H is engaged principally in the distribution and sale of electricity at retail to approximately 41,000 customers in the towns of Exeter and Hampton and in all or part of sixteen surrounding towns, all in New Hampshire. E&H's service area consists of approximately 168 square miles in southeastern New Hampshire. The service area includes all of the towns of Atkinson, Danville, East Kingston, Exeter, Hampton, Hampton Falls, Kensington, Kingston, Newton, Plaistow, Seabrook, South Hampton and Stratham, and portions of the towns of Derry, Brentwood, Greenland, Hampstead and North Hampton.

Commercial and industrial customers served by E&H are quite diversified and include retail stores, shopping centers, motels, farms, restaurants, apple orchards and office buildings, as well as manufacturing firms engaged in the production of sportswear, automobile parts and electronic components. It is estimated that there are over 150,000 daily summer visitors to E&H's territory, which includes several popular resort areas and beaches along the Atlantic Ocean. Of E&H's 2001 retail electric revenues, approximately 48% were derived from residential sales, 30% from commercial, government and nonmanufacturing sales, 21% from industrial/manufacturing sales and 1% from other sales.

FG&E is engaged principally in the distribution and sale of both electricity and natural gas in the City of Fitchburg and several surrounding communities. FG&E's service area encompasses approximately 170 square miles in north central Massachusetts.

Electricity is supplied and distributed by FG&E to approximately 27,000 customers in the communities of Fitchburg, Ashby, Townsend and Lunenburg. FG&E's industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and allied industries. Of FG&E's 2001 electric revenues, approximately 38% were derived from residential sales, 26% from commercial and nonmanufacturing sales, 28% from industrial/manufacturing sales and 8% from other sales.

Natural gas is supplied and distributed by FG&E to approximately 15,000 customers in the communities of Fitchburg, Lunenburg, Townsend, Ashby, Gardner and Westminster, all located in Massachusetts. Of FG&E's 2001 gas operating revenues, approximately 54% were derived from residential sales, 12% from small general customers, 20% from medium general customers, 8% from large general customers, 3% from interruptible sales (which are sales to customers that have agreed to discontinue use of the Company-supplied gas service temporarily upon notice by the Company, and which customers usually have an alternate fuel capability, e.g., fuel oil, that they can employ during the interruption periods) and 3% from other sales. FG&E's industrial gas revenue is primarily derived from firm sales to paper manufacturing and paper products companies, fabricated metal products manufacturers, rubber and plastics manufacturers, and primary iron.

Natural gas sales in New England are seasonal, and the Company's results of operations reflect this seasonal nature. Accordingly, results of operations are typically positively impacted by gas operations during the five heating season months from November through March of the following year. Electric sales in New England are far less seasonal than natural gas sales; however, the highest usage typically occurs in the summer and winter months due to air conditioning and heating requirements, respectively. Unitil is not dependent on a single customer or a few customers for its electric and gas sales.

(For details on the Unitil's Results of Operations see Part II, Item 7 herein.)

(For segment information see Part II, Item 8, Footnote 13 herein.)

## **REGULATORY MATTERS**

The Until Companies are regulated by various federal and state agencies, including the Securities and Exchange Commission (SEC), the Federal Energy Regulatory Commission (FERC), and state regulatory authorities with jurisdiction over the utility industry, including the New Hampshire Public Utilities Commission (NHPUC) and the Massachusetts Department of Telecommunications and Energy (MDTE). In recent years, there has been significant legislative and regulatory activity to restructure the utility industry to introduce greater competition in the supply and sale of electricity and gas, while continuing to regulate the distribution operations of Until's utility operating subsidiaries.

Massachusetts enacted the Electric Restructuring Act of 1997 (the Restructuring Act) requiring the comprehensive restructuring of the electric utility industry in the state. Since March 1, 1998, all electric consumers in Massachusetts served by investor-owned utilities have had the ability to choose their electric energy supplier. FG&E, the Company's Massachusetts based combination gas and electric utility, has continued to implement its comprehensive electric Restructuring Plan, and has completed the divestiture of its entire regulated power supply business, including its nuclear investment in Millstone 3.

At the direction of the MDTE, in 1997, FG&E and other Massachusetts gas distribution utilities initiated an industry-wide collaborative process to develop a common set of principles to restructure their gas service and implement the necessary infrastructure to offer gas customers choice of their competitive gas energy supplier. FG&E filed new gas tariffs with the MDTE to implement natural gas unbundling in accordance with the principles resulting from this collaborative effort. The MDTE approved these tariffs and regulations governing the unbundling of gas services effective November 1, 2000.

In New Hampshire, Concord Electric Company (CECo) and Exeter & Hampton Electric Company (E&H), the Company's electric distribution operating subsidiaries, and Until Power Corp. (UPC), the Company's wholesale power supply company, continue to prepare for the transition to a new market structure. As discussed further below, on January 25, 2002, the Companies filed a comprehensive restructuring proposal with the NHPUC to comply with the State's restructuring law and provide retail choice to its customers. Until has also been an active participant in the restructuring of the wholesale power market and transmission system in New England. New wholesale markets have been implemented in the New England Power Pool (NEPOOL) under the general supervision of an Independent System Operator (ISO) and the regulatory oversight of the FERC.

**Massachusetts Electric Operations Restructuring** - On January 15, 1999, the MDTE approved the provisions of FG&E's Electric Restructuring Plan with certain modifications. Under the Restructuring Plan, FG&E must provide its customers with: a) the ability to choose a competitive energy supplier; b) an option to purchase standard offer service or default service provided by FG&E; and c) a cumulative 15% rate reduction adjusted for inflation.

As a result of restructuring and divestiture of FG&E's entire generation and purchased power portfolio, FG&E has accelerated the amortization of its stranded electric generation assets and its abandoned investment in Seabrook Station. FG&E continues to earn an authorized rate of return on the unamortized balance of these Regulatory Assets. In addition, as a result of the rate reduction requirement of the Restructuring Act, FG&E has been authorized to defer the recovery of a portion of its transition costs and standard offer service costs. These unrecovered amounts are also recorded as Regulatory Assets and earn authorized carrying charges until their subsequent recovery in future periods. As the value of FG&E's Regulatory Assets are amortized and/or recovered over the next eight to ten years, income from this segment of FG&E's utility business will continue to decline and ultimately cease.

In accordance with its Restructuring Plan, each year FG&E adjusts its unbundled rate components, including the component that recovers its transition costs, to reconcile any differences between its estimated and actual costs from the prior year. These rate adjustments are subject to the required inflation-adjusted 15% rate discount. FG&E had made three such filings - in 1999, 2000, and 2001. Rate adjustments were approved for effect during the subsequent year, subject to further investigation.

The investigation of FG&E's initial reconciliation filing was initiated in 2000. On October 18, 2001 and October 19, 2001, the MDTE issued a series of regulatory Orders in several pending cases involving FG&E, including a final Order on FG&E's initial reconciliation filing. Those Orders included the review and disposition of issues related to the Company's recovery of transition costs due to the restructuring of the electric industry in Massachusetts, as well as certain costs associated with gas industry restructuring and preparation and litigation of performance based rate proceedings initiated by the MDTE. The Orders determined the final treatment of Regulatory Assets that FG&E had sought to recover from its Massachusetts electric customers over a multi-year transition period that began in 1998. FG&E has now determined that it is authorized to recover approximately \$150 million of Regulatory Assets attributable to stranded generation assets, purchased power costs and related expenses. As a result of these Orders, FG&E recorded a non-cash adjustment to Regulatory Assets of \$5.3 million in the third quarter of 2001, which resulted in the recognition of an extraordinary charge of \$3.9 million after taxes. FG&E will continue to be subject to annual MDTE investigation and review in order to reconcile its restructuring-related costs and revenues, including its transition charge and standard offer service charge.

FG&E's third annual reconciliation and rate adjustment filing, filed on December 2, 2001, included a recast of its rates from 1998 through 2001 in compliance with the MDTE's final Order on its initial reconciliation filing. The investigation of the initial reconciliation filing specifically covered the period March 1998 through October 1999, however most of the MDTE's cost recovery findings apply after October 1999 as well. As part of this filing, FG&E also reduced its standard offer service fuel adjustment (SOSFA), reflecting lower fuel oil and natural gas costs. The SOSFA is a rate mechanism approved as part of restructuring plans in Massachusetts that provides for the recovery of excessive fuel costs based on a fuel trigger. Revenues collected under the trigger are passed on to standard offer service suppliers. Under the proposed SOSFA, FG&E estimates that all of its SOSFA-related costs, including deferred amounts of about \$4.5 million, will be recovered by the end of November 2002.

On December 27, 2001, the MDTE approved FG&E's SOSFA and base rates for effect January 1, 2002, subject to further investigation. With the MDTE's resolution of cost recovery issues in its October 2001 Orders and anticipated final approval of FG&E's compliance filing, FG&E's financial risk associated with its unbundled cost recovery mechanisms is significantly reduced. The MDTE also allowed FG&E to implement the SOSFA for 2002. FG&E is required to notify the MDTE 45 days in advance of when all SOSFA-related costs are projected to be recovered.

**Massachusetts Gas Operations Restructuring** - As indicated above, in 1997, the MDTE directed all Massachusetts natural gas Local Distribution Companies (LDCs) to form a collaborative with other stakeholders to develop common principles and appropriate regulations for the unbundling of gas service. In November 1999, the LDCs petitioned the MDTE for approval of regulations governing the unbundling of gas services that were developed with the input of participants of the collaborative. Effective November 1, 2000, the MDTE adopted these regulations and LDC tariffs including those of FG&E filed in accordance with the principles developed in the collaborative process. Retail customers are now free to choose a competitive gas supplier, if they wish.

As part of this proceeding, in February 1999, the MDTE issued an Order in which it determined that the LDCs would continue to have an obligation to provide gas supply and delivery services for another five years, with a review after three years. This Order also set forth the MDTE's decision requiring mandatory assignment by LDCs of their pipeline capacity contracts to competitive marketers.

**New Hampshire Electric Operations Restructuring** - On February 28, 1997, the NHPUC issued its Final Plan in response to the New Hampshire Electric Restructuring Law RSA 374-F, passed into law in 1996, for New Hampshire electric utilities to transition to a competitive electric market in the State. The Final Plan linked the interim recovery of stranded cost by the State's utilities to a comparison of their existing rates with the regional average utility rates. CECo's and E&H's rates are below the regional average; thus, the NHPUC found that CECo and E&H were entitled

to full interim stranded cost recovery. However, the NHPUC also made certain legal rulings that could affect CECO's and E&H's long-term ability to recover all of their stranded costs. The Company cannot predict the final outcome of the restructuring of its utility operations in New Hampshire, but believes that final resolution of this restructuring process will result in recovery of substantially all its stranded and restructuring-related costs.

Northeast Utilities' affiliate, Public Service Company of New Hampshire (PSNH), filed suit in U.S. District Court for protection from the Final Plan and related orders and was granted an indefinite stay. In June 1997, Until, and other utilities in New Hampshire, intervened as plaintiffs in the federal court proceeding. In June 1998, the federal court clarified that the injunctions issued by the court in 1997 had effectively frozen the NHPUC's efforts to implement restructuring. This amended injunction has been challenged by the NHPUC, and affirmed by the First Circuit Court of Appeals. Until continues to be a plaintiff-intervenor in federal district court. In October 2000, the NHPUC approved a settlement for the restructuring of PSNH, which was implemented on May 1, 2001.

The Company has continued to work actively to explore settlement options and to seek a fair and reasonable resolution of key restructuring policies and issues in New Hampshire. The Companies are also monitoring the regulatory and legislative proceedings dealing with electric restructuring in the State. As indicated above, the Companies filed a comprehensive restructuring proposal with the NHPUC on January 25, 2002. If approved, the Companies would withdraw their complaint from the federal court proceeding. The restructuring proposal, if approved, will go into effect on or before November 1, 2002. Under the restructuring proposal, the Companies' customers will be allowed to choose a competitive energy supplier, while electricity delivery services will continue to be provided by Until. Until will sell its portfolio of electricity supply contracts and recover the residual stranded costs over a period of years. Until will offer customers a three-year transition service at specified prices and a permanent default service. These services will be procured from the competitive wholesale market.

As part of the restructuring, Until is also proposing to combine CECO, E&H, and the remaining functions of UPC into a single distribution utility, Until Energy Systems, Inc. As part of the filing, Until filed new, consolidated tariff and rate schedules for distribution service in NH and is seeking an increase in base rates for distribution service. Rate levels and rate components applicable to all Until customers will change as a result and distribution rates increased, but overall rate levels are expected to be below rate levels in effect at the time of filing.

**Rate Proceedings** - Aside from Until's NH restructuring proposal discussed above, the last formal regulatory filings initiated by the Company to increase base rates for Until's three retail electric operating subsidiaries occurred in 1985 for CECO, 1984 for FG&E, and 1981 for E&H. A majority of the Company's electric operating revenues are collected under various periodic rate adjustment mechanisms including fuel, purchased power, cost of gas, energy efficiency, and restructuring-related cost recovery mechanisms. Electric industry restructuring will continue to change the methods of how certain costs are recovered through the Company's regulated rates and tariffs.

On the gas side, during FG&E's 1998 gas base rate case proceeding, the Massachusetts Attorney General alleged that FG&E had over-collected fuel inventory finance charges, and requested that the MDTE require FG&E to refund approximately \$1.6 million of charges collected since 1987. The Company believes that the Attorney General's claim is without merit and that a refund was not justified or warranted. Following the MDTE's November 1, 1999 Order initiating an investigation, the MDTE held hearings in 2000. On May 31, 2001, the MDTE issued an Order in this proceeding, finding that FG&E had over-collected the costs in its CGAC mechanism and ordered FG&E to return these costs, in the approximate amount of \$0.7 million plus accumulated and future interest, to customers over the same number of years they were collected. On October 10, 2001, FG&E filed a Motion for Stay pending appeal and Memorandum of Law in Support with the Supreme Judicial Court (SJC). On November 16, 2001, the SJC denied the Motion for Stay, stating that any refunds made by FG&E may be recouped if FG&E prevails before the SJC on the merits of its claims. FG&E has begun to implement a multi-year refund of approximately \$0.2 million per year through its CGAC mechanism in compliance with the MDTE's Order. The review of the MDTE Order by the SJC is currently pending. FG&E continues to assert that no refund is justified or warranted as a matter of fact or law; however, management cannot predict the outcome of this litigation.

On December 31, 1999, the Massachusetts Attorney General filed a complaint under G.L. c. 164, sec. 93, against FG&E requesting that the MDTE investigate the distribution rates, rate of return, and depreciation accrual rates for FG&E's electric operations in calendar year 1999. The MDTE opened a proceeding in November 2000 and investigated the matter in 2001. On October 18, 2001, the MDTE issued an Order, finding that FG&E's electric distribution base rates would generate an annual excess of approximately \$1.2 million in revenue and ordered FG&E to reduce its electric base rates, effective that same day. FG&E submitted its compliance filing on October 19, 2001, and received approval of its filing on October 24, 2001.

**Performance Based Ratemaking** - On October 29, 1999, the MDTE initiated a proceeding to establish guidelines for service quality standards to be included in Performance Based Ratemaking (PBR) plans for all electric and gas distribution utilities in Massachusetts. PBR is a method of setting regulated distribution rates that provides incentives for utilities to control costs while maintaining a high level of service quality. Under PBR, a company's earnings are tied to performance targets and penalties can be imposed for deterioration of service quality. The MDTE issued an Order on June 29, 2001, establishing guidelines for implementation of service-quality measurement programs by gas and electric companies operating under PBR. On October 29, 2001, FG&E filed its Service Quality Plan for its Gas and Electric Divisions as required by the MDTE. On December 5, 2001, FG&E received approval of its Service Quality Plan for its Electric Division, subject to modification pending the conclusion of the service quality proceeding. Approval of the plan for the Gas Division is pending. FG&E's Gas Division will be filing a PBR plan in April 2002. The requirement to file a PBR plan for the Gas Division stems from FG&E's 1998 gas rate case. FG&E is required to file a PBR plan for its Electric Division in its next electric rate case. The Company is preparing to file such a plan in April 2002. The PBR plan will establish new distribution rates through a traditional cost of service rate proceeding, service quality standards and penalties, and procedures for adjusting retail rates to reflect cost inflation and other factors over the term of the PBR plan.

## **ELECTRIC POWER SUPPLY**

**New England Power Pool** - FG&E, UPC, CECO, and E&H are members of the New England Power Pool (NEPOOL). NEPOOL was formed to assure reliable operation of the bulk power system in the most economic manner for the region. Under the NEPOOL Agreement and the Open Access Transmission Tariff ("OATT"), to which virtually all New England electric utilities are parties, substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. NEPOOL is governed by an agreement that is filed with the FERC and its provisions are subject to continuing FERC jurisdiction. The NEPOOL Agreement and the OATT imposes generating capacity and reserve obligations, provides for the use of major transmission facilities and payments associated therewith. The most notable benefits of NEPOOL are coordinated power system operation in a reliable manner and providing a supportive business environment for the development of a competitive electric marketplace.

There are ongoing legislative and regulatory initiatives that are primarily focused on the deregulation of the generation and supply of electricity and the corresponding development of a competitive market place from which customers could choose their electric energy supplier. As a result, the NEPOOL Agreement continues to be restructured. NEPOOL's membership provisions have been broadened to cover all entities engaged in the electricity business in New England, including power marketers and brokers, independent power producers, load aggregators and retail customers in states that have enacted retail access statutes. The regional bulk power system is operated by an independent corporate entity, ISO New England (ISO-NE), so that there is no opportunity for conflicting financial interests between the system operator and the market-driven participants.

Various energy and capacity products are traded in open, competitive markets, with transmission access and pricing subject to a regional tariff (the OATT) designed to promote competition among power suppliers. On May 1, 1999, ISO-NE began dispatching generating units using a bid-based system and implemented bid-based markets for reserve products and automatic generation control. In January 2002, ISO-NE and the New York ISO announced they were discussing a possible merger of the two entities. If the merger takes place, it will expand the markets for New England and New York and will change market rules for bulk power markets to make trading more uniform throughout the northeast.

**Energy Resources** - Since April 1, 1998, each electric utility is required to carry an allocated share of the NEPOOL capability responsibility under the NEPOOL Agreement. These capacity requirements are determined each month based on regional reliability criteria. Until Power Corp., the full requirements supplier to CECO and E&H, had an annual peak capability responsibility in November 2001 of 296.70 MW and a corresponding monthly peak demand of 187.82 MW. Beginning December 1, 2000, FG&E no longer had a direct capability responsibility because its Standard Offer Service supplier, Constellation Power Source and its periodic Default Service supplier is responsible for the capability responsibility under the respective contracts. Effective December 1, 2000, FG&E began serving Default Service Load through six month contracts wherein the Default Service supplier had the load serving obligation, thus at the end of 2000 FG&E had no direct capability responsibility. Under MDTE regulations, FG&E will continue to procure Default Service through a bid process every six to twelve months.

To meet the needs of CECO and E&H, Until Power Corp. has contracted for generating capacity and energy and for associated transmission services as needed to meet NEPOOL requirements and to provide a diverse and economical energy supply. Until Power's purchases are from various utility and non-utility generating units using a variety of fuels and from several utility systems in the U.S. and Canada as well as purchases in the spot market. For the twelve months ended December 31, 2001, Until Power's energy needs were provided by the following fuel sources: nuclear (24%), oil (8%), gas (10%), coal (8%), refuse (4%), hydro (2%) and system (44%).

In 2001, FG&E met its capacity requirements through an all requirements Standard Offer contract with Constellation Power Source, and several all requirements Default Service contracts. FG&E's power supply portfolio, including the joint ownership generation output, was sold to Select Energy, Inc. beginning February 1, 2000 as part of the power supply restructuring plan approved by the MDTE. For the twelve months ended December 31, 2001, FG&E's energy needs were by system power from the Standard Offer and Default contracts.

FG&E is participating, on a tenancy-in-common basis with other New England utilities, in the ownership of the Wyman 4 generating unit. Wyman Unit No. 4 is an oil-fired station in Yarmouth Maine, which is operated by FPL Energy Maine, LLC as the majority owner, that has been in commercial operation since December 1978. FG&E completed the sale of its 0.217% interest in Millstone Unit No. 3, a nuclear generating unit in March 2001. FG&E completed the sale of its 4.5% interest in New Haven Harbor Station in March 1999. In accordance with Massachusetts Electric Restructuring Law, and pursuant to the power supply divestiture discussed in Note 8 of the Financial Statements, FG&E began selling the output from its electric contracts and generation units on February 1, 2000.

**Fuel - Oil:** Approximately 8% of UPC's electric power in 2001 was provided by oil-fired units. Most fuel oil used by New England electric utilities is acquired from foreign sources and is subject to interruption and price increases by foreign governments.

**Coal:** Approximately 8% of UPC's 2001 requirements were from coal-burning facilities. The facilities generally purchase their coal under long term supply agreements with prices tied to economic indices. Although coal is stored both on-site and by fuel suppliers, long term interruptions of coal supply may result in limitations in the production of power or fuel switching to oil and thus result in higher energy prices.

Pursuant to the Nuclear Waste Policy Act of 1982, the participants in Millstone 3 were required to enter into contracts with the United States Department of Energy, prior to the operation of that Unit, for the transport and disposal of spent fuel at a nuclear waste repository. FG&E cannot predict whether the Federal government will be able to provide storage or permanent disposal repositories for spent fuel. FG&E's Millstone 3 ownership interest was sold in March 2001. The sales agreement and a separate settlement agreement with Northeast Utilities indemnifies FG&E from continuing liability associated with environmental, decommissioning and waste disposal associated with its former Millstone 3 ownership.

## GAS SUPPLY

FG&E distributes gas purchased from domestic and Canadian suppliers under long term contracts as well as gas purchased from producers and marketers on the spot market. The following tables summarize actual gas purchases by source of supply and the cost of gas sold for the years 1999 through 2001.

**Sources of Gas Supply**  
(Expressed as percent of total MMBtu of gas purchased)

| Natural Gas:         | 2001   | 2000   | 1999   |
|----------------------|--------|--------|--------|
| Domestic firm        | 76.2%  | 78.6%  | 75.4%  |
| Canadian firm        | 8.0%   | 6.3%   | 6.4%   |
| Domestic spot market | 14.5%  | 13.2%  | 17.2%  |
| Total natural gas    | 98.7%  | 98.1%  | 99.0%  |
| Supplemental gas     | 1.3%   | 1.9%   | 1.0%   |
| Total gas purchases  | 100.0% | 100.0% | 100.0% |

### Cost of Gas Sold

|  | 2001    | 2000    | 1999    |
|--|---------|---------|---------|
| Cost of gas purchased and sold per MMBtu | \$ 6.49 | \$ 5.19 | \$ 3.42 |
| Percent Increase from prior year         | 24.99%  | 52.01%  | 1.74%   |

As a supplement to pipeline natural gas, FG&E owns a propane air gas plant and a liquefied natural gas (LNG) storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

## **ENVIRONMENTAL MATTERS**

**Sawyer Passway MGP Site** - The Company continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. FG&E, the Company's Massachusetts utility operating subsidiary, has proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection (DEP), which allows the Company to work towards temporary remediation of the site. The last remaining portion of environmental remediation work necessary to achieve temporary closure of the Sawyer Passway MGP site was completed in late 2001. A status of temporary closure requires FG&E to monitor the site until a feasible permanent remediation alternative can be developed and completed.

Since 1991, FG&E has recovered the environmental response costs incurred at this former MGP site pursuant to a MDTE approved Settlement Agreement (Agreement) between FG&E, certain other Massachusetts gas utilities and the Massachusetts Attorney General. The Agreement allows FG&E to amortize and recover from gas customers over succeeding seven-year periods the environmental response costs incurred each year. Environmental response costs are defined to include liabilities related to manufactured gas sites, waste disposal sites or other sites onto which hazardous material may have migrated as a result of the operation or decommissioning of Massachusetts gas manufacturing facilities from 1882 through 1978. FG&E does not recover carrying charges associated with these costs and any tax benefits related to the payment of such costs are credited to customers in the year they are realized. In addition, any recovery that FG&E receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between FG&E and customers. The total annual charge for such costs assessed to customers cannot exceed five percent of FG&E's total revenue for firm gas sales during the preceding year. Costs in excess of five percent will be deferred for recovery in subsequent years.

**Former Electric Generating Station** - The Company is investigating environmental conditions at a former electric generating station located at Sawyer Passway, which FG&E sold to WRW, a general partnership, in 1983. Rockware International Corporation (Rockware), an affiliate of WRW, acquired rights to the electric equipment in the building and intended to remove, recondition and sell this equipment. During 1985, Rockware demolished several exterior walls of the generating station in order to facilitate removal of certain equipment. The demolition of the walls and the removal of generating equipment resulted in damage to asbestos containing insulation materials inside the building, which had been intact and encapsulated at time of the sale of the structure to WRW.

When Rockware and WRW encountered financial difficulties and ignored orders of the environmental regulators to remedy the situation, FG&E agreed to take steps and obtained DEP approval to temporarily enclose, secure and stabilize the facility. Based on that approval, between September and December 1989, contractors retained by the Company stabilized the facility and secured the building. This work did not permanently resolve the asbestos problems caused by Rockware, but was deemed sufficient for the then foreseeable future.

FG&E, working closely with the DEP and the Massachusetts Attorney General, brought an action in 1986 in the Worcester Superior Court, against Rockware. On July 16, 1990, FG&E filed an amended complaint and obtained a preliminary injunction barring Rockware from removing anything of value from the Fitchburg facility and barring it from further encumbering the property. It also obtained an attachment encumbering all of Rockware's goods, equipment and property, located in Fitchburg, Massachusetts. On June 3, 1993, FG&E, Rockware and WRW entered into an agreement for judgement in favor of the Company in the amount of \$1.6 million and the preliminary injunctions became permanent. FG&E has been unable to collect any amounts from WRW and/or Rockware due to their bankruptcies.

In addition to its efforts to obtain reimbursement and indemnification from WRW and Rockware, FG&E entered into negotiations with its insurers. FG&E reached an interim settlement with its excess insurer and a final settlement with its primary insurer, which provided reimbursement for most of the costs that had been incurred to secure and stabilize the facility at that time.

Due to the continuing deterioration of this former electric generating station and Rockware's continued lack of performance, FG&E, in concert with the DEP and the U.S. Environmental Protection Agency (EPA), conducted further testing and survey work during 2001 to ascertain the environmental status of the building. These recent surveys have revealed continued deterioration of the asbestos containing insulation materials in the building. During an informal meeting on February 8, 2002, the EPA and DEP indicated to the Company that remedial actions are necessary. The Company anticipates receiving a Notice of Responsibility from the EPA by the end of the first quarter of 2002. The Company anticipates that this Notice will require specific remedial action, including abatement and removal of asbestos containing materials. At this time, the Company is uncertain as to the cost of the further remedial action that may be required by environmental regulators or what portion of the cost the Company will be held responsible. However, the Company believes that its liability insurance policies will provide significant coverage for the costs of any clean-up effort and that the ultimate resolution of these matters will not have a material adverse impact on the Company's financial position.

## **CAPITAL REQUIREMENTS**

Cash Flows Used in Investing Activities decreased approximately \$2.7 million in 2001, primarily reflecting a \$1.2 million reduction in capital expenditures on utility distribution system additions and improvements, the receipt of \$0.3 million of proceeds from the sale of the Company's interest in Millstone 3 and reduction of unregulated investment activities. Cash Flows Used in Investment Activities increased approximately \$7.1 million in 2000, primarily reflecting cash proceeds of \$5.3 million for the sale of the Company's 4.5% interest in New Haven Harbor Station, which was received in 1999.

Capital expenditures are projected to decrease in 2002 to approximately \$19.2 million, primarily reflecting lower planned expenditures on the Company's non-regulated business activities offset by increased expenditures for utility distribution system improvements.

## **FINANCING ACTIVITIES**

Cash Flows from Financing Activities decreased by \$14.2 million in 2001 compared to 2000. This decrease primarily reflects proceeds received from the issuance of long-term debt, offset by a repayment of short- and long-term borrowings. During 2001, three of the Company's utility subsidiaries issued long-term debt totaling \$29.0 million. The proceeds were used to reduce short-term debt aggregating \$18.7 million and to provide long-term funding for a portion of its additions to gas and electric distribution plant and equipment (See Note 6).

Cash Flows from Financing Activities increased by \$18.0 million in 2000 compared to 1999. This increase reflected a higher level of borrowing in 2000 versus 1999 to fund the Company's capital expenditure program and working capital requirements. In particular, as previously discussed, the time lag between increases in energy costs and corresponding recovery from customers resulted in the Company incurring short-term debt to fund the interim working capital needs of the Company's energy cost obligations.

As a result of rising and volatile wholesale gas and electric energy prices in 2000 and early 2001, the Company filed and obtained authorization from the SEC under the 1935 Act to increase its maximum short-term borrowing level to \$45 million. Further, the Company negotiated with its banks to increase its lines of credit to meet its borrowing obligations. On several occasions, the Company filed rate adjustments to its reconciling cost recovery mechanisms to reflect changes in wholesale energy prices during 2001. In 2001, as wholesale energy prices declined significantly, the Company obtained regulatory approval to reduce rates correspondingly to reflect lower energy costs.

At December 31, 2001, the Company had unsecured bank lines for short-term debt aggregating \$30,000,000 with three banks for which it pays fees. At December 31, 2001, the unused portion of the credit lines outstanding was \$16,200,000. The average interest rates on all short-term borrowings were 4.78% and 6.57% during 2001 and 2000, respectively.

## **EMPLOYEES**

As of December 31, 2001, the Company and its subsidiaries had 333 full-time and part-time employees. The Company considers its relationship with its employees to be good and has not experienced any major labor disruptions since the early 1960's.

There are approximately 100 employees represented by labor unions. In 2000, E&H reached a new five-year pact with its employees covered by a collective bargaining agreement, which will expire effective May 31, 2005. In 2000, CECO reached a new five-year pact with its employees covered by a collective bargaining agreement, which will expire effective May 31, 2005. In 2000, FG&E reached a five-year pact with its employees covered by collective bargaining agreements, which will expire effective May 31, 2005. The agreements provided for discreet salary adjustments, established work practices and provided uniform benefit packages. The Company expects to successfully negotiate new agreements prior to the expiration dates of these contracts.

The Company and its subsidiaries, where applicable, have in force funded Retirement Plans and related Trust Agreements providing retirement annuities for participating employees at age 65. The Company's policy is to fund the pension cost accrued (see Note 11 of Notes to Consolidated Financial Statements contained in Part II, Item 8).

The Company maintains two stock option plans, which provide for the granting of options to key employees, as follows: (see Note 4 of Notes to Consolidated Financial Statements contained in Part II, Item 8).

**Unitil Corporation Key Employee Stock Option Plan** - The "Unitil Corporation Key Employee Stock Option Plan" was a 10-year plan which began in March 1989. The number of shares granted under this plan, as well as the terms and conditions of each grant, were determined by the Board of Directors, subject to plan limitations. All options granted under this plan vested upon grant. The 10-year period in which options could be granted under this plan expired in March 1999. The expiration date of the remaining outstanding options is November 3, 2007. The plan provides dividend equivalents on options granted, which are recorded at fair value as compensation expense.

**Unitil Corporation 1998 Stock Option Plan** - The "Unitil Corporation 1998 Stock Option Plan" became effective on December 11, 1998. The number of shares granted under this plan, as well as the terms and conditions of each grant, are determined by the Board of Directors, subject to plan limitations. All options granted under this plan vest over a three-year period from the date of the grant, with 25% vesting on the first anniversary of the grant, 25% vesting on the second anniversary, and 50% vesting on the third anniversary. Under the terms of this plan, key employees may be granted options to purchase the Company's Common Stock at no less than 100% of the market price on the date the option is granted. All options must be exercised no later than 10 years after the date on which they were granted.

## **EXECUTIVE OFFICERS OF THE REGISTRANT**

The names, ages and positions of all of the executive officers of the Company as of March 1, 2002 are listed below, along with a brief account of their business experience during the past five years. All officers are elected annually by the Board of Directors at the Directors' first meeting following the annual meeting, which is held on the third Thursday in April, or at a special meeting held in lieu thereof. There are no family relationships among these officers, nor is there any arrangement or understanding between any officer and any other person pursuant to which the officer was selected. Officers of the Company also hold various Director and Officer positions with subsidiary companies.

| <u>Name, Age and Position</u>  | <u>Business Experience During Past 5 years</u>   |
|--|--|
| Robert G. Schoenberger, 51,<br>Chairman of the Board of Directors<br>and Chief Executive Officer | Mr. Schoenberger has been Chairman of the Board and Chief Executive Officer of Unitil since 1997. Prior to his employment with Unitil, Mr. Schoenberger was President and Chief Operating Officer at New York Power Authority (NYPA) from 1993 until 1997. |
| Michael J. Dalton, 61,<br>President and<br>Chief Operating Officer                               | Mr. Dalton has been a Director, President and Chief Operating Officer of the Company since its incorporation in 1984.  |
| Anthony J. Baratta, Jr., 58,<br>Senior Vice President<br>And Chief Financial Officer             | Mr. Baratta has been Senior Vice President and Chief Financial Officer of Unitil since 1998. Prior to his employment with Unitil, Mr. Baratta was Executive Vice President and Chief Financial Officer at New World Power Corporation.                     |
| Mark H. Collin, 43,<br>Treasurer and Secretary<br>and Vice President, Unitil Service             | Mr. Collin was appointed Treasurer and Secretary of Unitil in January 1998. Mr. Collin has been Treasurer of Unitil's principal subsidiaries and Vice President of Unitil Service Corp. since 1992.  |
| George R. Gantz, 50<br>Senior Vice President Business<br>Development Unitil Service              | Mr. Gantz has been Senior Vice President of Unitil Service since 1994.   |

## *Item 2. Properties*

CECo's distribution service center building and adjoining administration building, totaling 37,560 square feet of office, warehouse and garage area, are located on land in the City of Concord owned by CECo in fee. CECo's sixteen electric distribution substations constitute 114,290 kVA of capacity for the transformation of electric energy from the 34.5 kV transmission voltage to primary distribution voltage levels. The electric substations are, with one exception, located on land owned by CECo in fee. The sole exception is located on land occupied pursuant to a perpetual easement.

CECo has in excess of 34 pole miles of 34.5 kV electric transmission facilities located, with minor exceptions, either on land owned by CECo in fee or on land occupied pursuant to perpetual easements. CECo also has a total of approximately 657 pole miles of overhead electric distribution lines and a total of approximately 44 conduit bank miles (124 cable miles) of underground electric distribution lines. The electric distribution lines are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by CECo without objection by the owners. In the case of certain distribution lines, CECo owns only a part interest in the poles upon which its wires are installed, the remaining interest being owned by telephone and telegraph companies.

Additionally, CECo owns in fee 137.7 acres of land located on the east bank of the Merrimack River in the City of Concord. Of the total acreage, 81.2 acres are located within an industrial park zone, as specified in the zoning ordinances of the City of Concord.

The physical properties of CECo (with certain exceptions) and its franchises are subject to the lien of its Indenture of Mortgage and Deed of Trust, as supplemented, under which the respective series of First Mortgage Bonds of CECo are outstanding.

E&H's distribution and engineering service center building is located on land owned by E&H in fee. E&H's fourteen electric distribution substations, including a 5,000 kVA mobile substation, constitute 91,400 kVA of capacity for the transformation of electric energy from the 34.5 kV transmission voltage to primary distribution voltage levels. The electric substations are located on land owned by E&H in fee.

E&H has in excess of 69 pole miles of 34.5 kV electric transmission facilities located on land either owned or occupied pursuant to perpetual easements. E&H also has a total of approximately 750 pole miles of overhead electric distribution lines and a total of approximately 133 conduit bank miles of underground electric distribution lines. The electric distribution lines are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by E&H without objection by the owners. In the case of certain distribution lines, E&H owns only a part interest in the poles upon which its wires are installed, the remaining interest being owned by telephone and telegraph companies.

Certain physical properties of E&H and its franchises are subject to the lien of its Indenture of Mortgage and Deed of Trust, as supplemented, under which the respective series of First Mortgage Bonds of E&H are outstanding.

FG&E owns a liquid propane gas plant and a liquid natural gas plant, both of which are located on land owned in fee. FG&E is participating, on a tenancy-in-common basis with other New England utilities, in the ownership of the Wyman 4 generating unit. In accordance with Massachusetts Electric Restructuring Law, and pursuant to the power supply divestiture discussed in Note 10 of the Financial Statements, FG&E began selling the output from its electric contracts and generation units on February 1, 2000. At December 31, 2001, the electric properties of the Company consisted principally of 62 miles of transmission lines, 23 transmission and distribution substations, including two mobile substations of 18.75-kVA total capacity, constitute a total capacity of 475,650 kVA and 482.8 miles of distribution lines. Electric transmission facilities (including substations) and steel, cast iron and plastic gas mains owned by the Company are, with minor exceptions, located on land owned by the Company in fee or occupied pursuant to perpetual easements. The Company leases its service building. (See Business - Electric Power Supply and Gas Supply above for additional information regarding the Company's plants, facilities and gas mains and services.)

Unitil Realty owns the Company's corporate headquarters building and 12 acres of land in fee, which is located in the town of Hampton, New Hampshire. The Company believes that its facilities are currently adequate for its intended uses.

## *Item 3. Legal Proceedings*

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. In the opinion of the Company's management, based upon information furnished by counsel and others, the ultimate resolution of these claims will not have a material impact on the Company's financial position.

## *Item 4 Submission of Matters to a Vote of Security Holders*

None

## **PART II**

## *Item 5 Market for Registrant's Common Equity and Related Stockholder Matters*

## Common Stock Data

| Dividends per Common Share | 2001           | 2000     |
|----------------------------|----------------|----------|
| 1st Quarter                | \$ 0.345       | \$ 0.345 |
| 2nd Quarter                | 0.345          | 0.345    |
| 3rd Quarter                | 0.345          | 0.345    |
| 4th Quarter                | 0.345          | 0.345    |
| Total for Year             | <b>\$ 1.38</b> | \$ 1.38  |

| Price Range of Common Stock | 2001     |          | 2000     |         |
|-----------------------------|----------|----------|----------|---------|
|                             | High/Ask | Low/Bid  | High/Ask | Low/Bid |
| 1st Quarter                 | 27       | 24 9/10  | 34 3/4   | 29 9/16 |
| 2nd Quarter                 | 27 1/2   | 24 3/4   | 29 3/4   | 26      |
| 3rd Quarter                 | 25 9/20  | 23       | 30 1/8   | 26 1/16 |
| 4th Quarter                 | 25 3/20  | 22 19/20 | 28 3/4   | 25      |

### Item 6. Selected Financial Data

|  | 2001            | 2000     | 1999     | 1998     | 1997     |
|--|-----------------|----------|----------|----------|----------|
| <b>Consolidated Statements of Earnings (000's)</b> |                 |          |          |          |          |
| Operating Income                                   | <b>\$14,394</b> | \$14,280 | \$15,408 | \$15,306 | \$15,562 |
| Investment Write-down, net of tax                  | <b>2,400</b>    | ----     | ----     | ----     | ----     |
| Non-operating Expense (Income)                     | <b>170</b>      | 244      | 51       | 156      | 160      |
| Gross Income                                       | <b>11,824</b>   | 14,036   | 15,357   | 15,150   | 15,402   |
| Income Deductions                                  | <b>6,797</b>    | 6,820    | 6,919    | 6,901    | 7,167    |
| Net Income before Extraordinary Item               | <b>5,027</b>    | 7,216    | 8,438    | 8,249    | 8,235    |
| Extraordinary Item, net of tax                     | <b>3,937</b>    | ----     | ----     | ----     | ----     |
| Net Income before Dividends                        | <b>1,090</b>    | 7,216    | 8,438    | 8,249    | 8,235    |
| Dividends on Preferred Stock                       | <b>257</b>      | 263      | 268      | 274      | 276      |
| Net Income Applicable to Common Stock              | <b>\$833</b>    | \$6,953  | \$8,170  | \$7,975  | \$7,959  |

### Balance Sheet Data (000's)

|                               |                  |           |           |           |           |
|-------------------------------|------------------|-----------|-----------|-----------|-----------|
| Utility Plant (Original Cost) | <b>\$255,498</b> | \$234,325 | \$219,838 | \$209,462 | \$219,475 |
| Total Assets                  | <b>\$376,762</b> | \$382,974 | \$363,527 | \$376,835 | \$238,531 |
| Capitalization:               |                  |           |           |           |           |
| Common Stock Equity           | <b>\$74,746</b>  | \$79,935  | \$78,675  | \$75,351  | \$71,644  |
| Preferred Stock               | <b>3,609</b>     | 3,690     | 3,757     | 3,843     | 3,891     |
| Long-Term Debt                | <b>107,470</b>   | 81,695    | 86,157    | 75,222    | 68,366    |
| Total Capitalization          | <b>\$185,825</b> | \$165,320 | \$168,589 | \$154,416 | \$143,901 |
| Short-term Debt               | <b>\$13,800</b>  | \$32,500  | \$10,500  | \$20,000  | \$18,000  |

### Capital Structure Ratios:

|                     |            |     |     |     |     |
|---------------------|------------|-----|-----|-----|-----|
| Common Stock Equity | <b>37%</b> | 40% | 44% | 43% | 44% |
| Preferred Stock     | <b>2%</b>  | 2%  | 2%  | 2%  | 2%  |
| Long-Term Debt      | <b>54%</b> | 41% | 48% | 43% | 42% |
| Short-Term Debt     | <b>7%</b>  | 17% | 6%  | 12% | 12% |

### Earnings Per-Share Data

Before Investment Write-down and Extraordinary Item:

|                                    |               |        |        |        |        |
|------------------------------------|---------------|--------|--------|--------|--------|
| Basic Earnings Per Average Share   | <b>\$1.51</b> | \$1.47 | \$1.74 | \$1.77 | \$1.80 |
| Diluted Earnings Per Average Share | <b>\$1.51</b> | \$1.47 | \$1.74 | \$1.72 | \$1.76 |

After Investment Write-down and Before Extraordinary Item:

|   |               |        |        |        |        |
|---|---------------|--------|--------|--------|--------|
| Basic Earnings Per Average Share                    | <b>\$1.01</b> | \$1.47 | \$1.74 | \$1.77 | \$1.80 |
| Diluted Earnings Per Average Share                  | <b>\$1.01</b> | \$1.47 | \$1.74 | \$1.72 | \$1.76 |
| After Investment Write-down and Extraordinary Item: |               |        |        |        |        |
| Basic Earnings Per Average Share                    | <b>\$0.18</b> | \$1.47 | \$1.74 | \$1.77 | \$1.80 |
| Diluted Earnings Per Average Share                  | <b>\$0.18</b> | \$1.47 | \$1.74 | \$1.72 | \$1.76 |

#### Common Stock Data

|   |                |         |         |         |         |
|---|----------------|---------|---------|---------|---------|
| Shares of Common Stock (Year-End) (000's) | <b>4,744</b>   | 4,735   | 4,712   | 4,575   | 4,464   |
| Shares of Common Stock (Average) (000's)  | <b>4,744</b>   | 4,723   | 4,682   | 4,506   | 4,413   |
| Dividends Paid Per Share (Year-End)       | <b>\$1.38</b>  | \$1.38  | \$1.38  | \$1.36  | \$1.34  |
| Book Value Per Share (Year-End)           | <b>\$15.76</b> | \$16.88 | \$16.70 | \$16.47 | \$16.05 |

#### Electric and Gas Statistics

|   |                  |           |           |           |           |
|---|------------------|-----------|-----------|-----------|-----------|
| Electric Distribution Sales (mWh)             | <b>1,596,390</b> | 1,587,536 | 1,608,824 | 1,540,968 | 1,491,103 |
| Electric Customers (Year-End)                 | <b>95,116</b>    | 94,050    | 92,505    | 91,729    | 90,776    |
| Firm Gas Distribution Sales (000's of Therms) | <b>23,067</b>    | 23,992    | 22,136    | 22,027    | 23,716    |
| Gas Customers (Year-End)                      | <b>14,879</b>    | 14,796    | 14,928    | 14,915    | 14,943    |

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### OPERATING EARNINGS AND DIVIDENDS

Earnings from operations, as defined below, were \$1.51 per share for the year ended December 31, 2001; an increase of \$0.04, or 3%, compared to \$1.47 per share for the year ended December 31, 2000. Earnings from operations reflect the results for both utility and non-regulated operating units and do not include non-cash charges, discussed below, of (\$0.83) per share for an Extraordinary Item recorded in the third quarter and (\$0.50) per share recorded in the fourth quarter for an Investment Write-down relating to the Company's non-utility energy technology investment. Diluted earnings per share after the Investment Write-down and the Extraordinary Item were \$0.18 in 2001.

Unitil's annual Common Stock dividend in 2001 was \$1.38 per share. This annual dividend resulted in a payout ratio of 91%, for the year, before the Investment Write-down and Extraordinary Item. Excluding the loss from Non-regulated Operations, the payout ratio was 80% based on earnings from Utility Operations, before the Investment Write-down and Extraordinary Item. At its January 2002 meeting, the Unitil Board of Directors declared a regular quarterly dividend on the Company's Common Stock of \$0.345 per share. This quarterly dividend reflects the current annual dividend rate of \$1.38 per share.

As shown in the following table, Utility Operations contributed \$1.72 per share to 2001 earnings from Operations, compared to \$1.82 per share in 2000. The reduction in earnings from Utility Operations primarily reflects lower sales to industrial customers due to a slowing economy, warmer winter weather and lower electric rates for Unitil's Massachusetts based operating utility. The Company's non-regulated energy brokerage business, Usource, recorded a loss of \$0.21 per share in 2001, an improvement of \$0.14 over the loss of \$0.35 recorded in 2000. The decreased loss from Usource operations is related to increased brokerage fees and the Company's refocused operating plan.

| Earnings per Share by Component           | 2001           | 2000    | 1999    |
|---|----------------|---------|---------|
| Utility Operations                        | \$ 1.72        | \$ 1.82 | \$ 1.84 |
| Non-regulated Operations                  | (0.21)         | (0.35)  | (0.10)  |
| <b>Earnings per Share from Operations</b> | <b>1.51</b>    | 1.47    | 1.74    |
| Investment Write-down, net of tax         | (0.50)         | ---     | ---     |
| Extraordinary Item, net of tax            | (0.83)         | ---     | ---     |
| <b>Earnings per Share</b>                 | <b>\$ 0.18</b> | \$ 1.47 | \$ 1.74 |

The graph below shows Quarterly Earnings per Share from Operations for 2000 and 2001.

#### THE YEAR IN REVIEW

Key external factors impacting our business operating environment in 2001 included volatile gas and electric energy markets, a recessionary economy, utility industry restructuring-related issues, regulatory decisions and new initiatives. As we complete the transition to a restructured utility environment in our Massachusetts and New Hampshire service territories, we are setting a course to achieve continued improvement in operating results for our Utility Operations business unit. Our non-regulated business unit, Usource, also has an opportunity for improved results as more regulatory jurisdictions throughout the nation are restructured and opened to customer choice.

**Utility Operations** - Despite a slowing economy in 2001, our electric energy sales to residential and commercial customers were up in all three of Until's distribution utility service areas, compared to the prior year. Our New Hampshire distribution operating companies experienced record-high system peak electric loads during a sustained summer heat wave. However, the national economic slowdown has directly impacted our industrial sales, as manufacturing utilization and output have been curtailed. For 2001, total electric kWh sales increased slightly by 0.6% compared to 2000. Residential electric sales increased 3.4%, while commercial electric sales increased 3.1%. Electric sales to industrial customers decreased 3.7% in 2001 compared to 2000. Gas sales were up 4.3% through the first three quarters of the year, then dipped below prior year levels due to unseasonably mild temperatures in the fourth quarter of 2001. On a full-year basis, gas sales were down 3.9% compared to prior year.

Total Operating Revenues in 2001 increased to \$207 million, or 13%, over year 2000 Operating Revenues. This increase primarily reflects a period of rising and highly volatile wholesale energy prices for electric and natural gas energy commodities, during 2000 and early 2001, which resulted in increased gas and electric supply related revenues and costs. Energy related supply costs are reconciled and recovered in revenues through regulated cost recovery adjustment mechanisms with no markup or profit margin. By mid-2001, energy costs began to ease allowing the Company to flow-through those savings to customers. Until has implemented several gas and electric energy related rate decreases in the latter half of 2001, principally due to the decline in these wholesale energy costs.

Operating Expenses (excluding energy supply related costs) increased 2.1% in 2001 compared to 2000, primarily reflecting higher system maintenance expenses, an increase in uncollectable account write-offs and increases in Depreciation and Amortization on new plant additions and improvements, offset by lower franchise tax expense.

Interest Expense, net, was relatively unchanged in 2001 compared to 2000. A higher level of interest expense related to debt outstanding offset an increase in accrued interest income associated with deferred rate recovery mechanisms for restructuring-related Regulatory Assets.

Until's utility operating companies continued to develop and implement comprehensive gas and electric utility industry restructuring plans and strategies in 2001. The Company's Massachusetts combination gas and electric utility, Fitchburg Gas and Electric Light Company (FG&E), received a series of state regulatory Orders during October 2001, which completed the review and disposition of a number of pending ratemaking and restructuring-related issues. As further discussed below (see Extraordinary Item), these regulatory Orders reflected a significant turning point in the Company's regulated business environment and determined the treatment and recovery of restructuring-related Regulatory Assets and costs in Massachusetts.

One of the Orders also completed an investigation into the overall earnings level of FG&E's electric division. As a result of this investigation, FG&E was directed to reduce its base electric distribution rates prospectively by \$1.2 million annually, or approximately 8.4%. In compliance with this Order, the Company reduced its electric distribution rates, effective October 19, 2001. The Company is now in the process of preparing Performance Based Ratemaking (PBR) plans for FG&E's gas and electric distribution divisions. Under PBR, a company's earnings are tied to performance targets and penalties can be imposed for deterioration of service quality. The PBR plan will establish new distribution rates based on traditional cost of service ratemaking, service quality standards and penalties, and procedures for adjusting retail rates in future periods to reflect cost inflation and other factors over the term of the PBR plan.

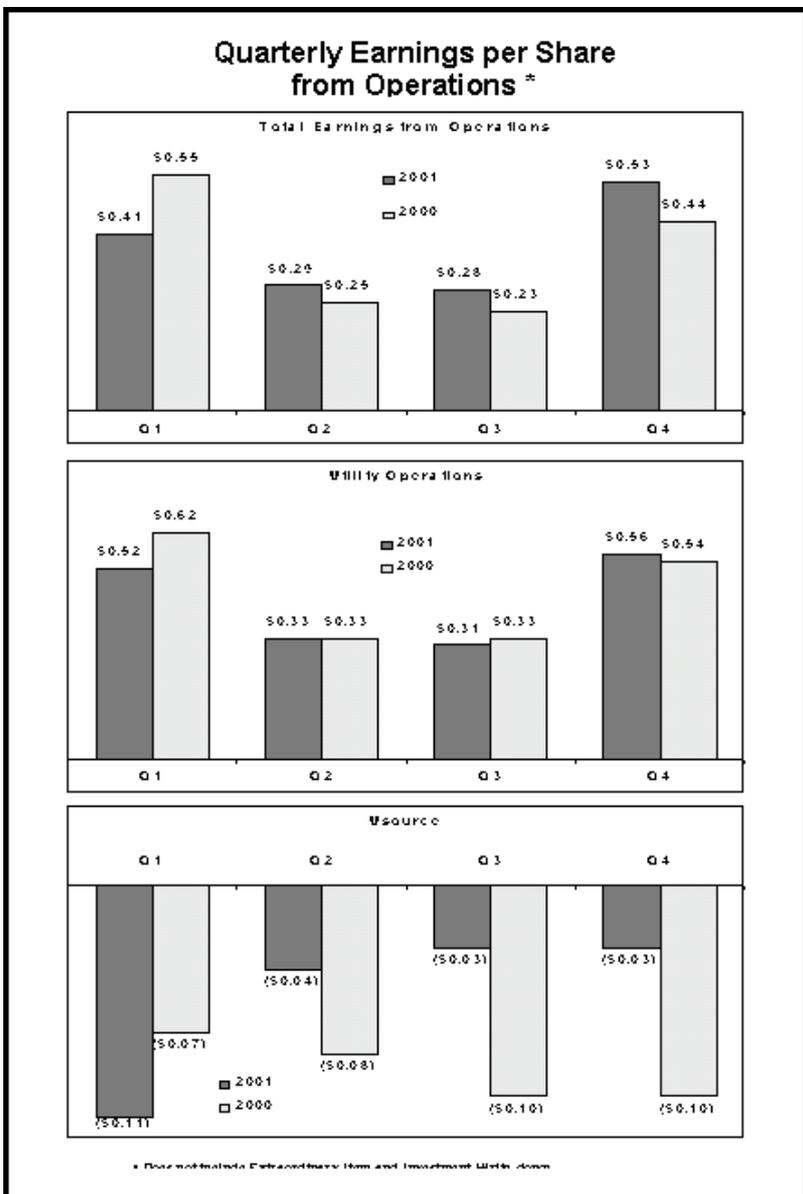
During the first quarter of 2001, FG&E completed the restructuring-related divestiture of its interest in Millstone Unit No. 3 Nuclear Generating Station (Millstone 3). This sale ended the Company's involvement in nuclear power generation and eliminated all potential future liabilities related to this nuclear generating facility, including environmental and decommissioning liabilities.

During the year, Until's New Hampshire utility operating companies also completed the preparation of an electric restructuring plan and offer of settlement, which was filed in January 2002 for regulatory review and approval. This filing will result in the divestiture of Until's remaining regulated long-term power supply portfolio, the combination of Until's New Hampshire Utility Operations into a single utility, the unbundling and setting of new separate rates for energy and delivery services, and the introduction of retail choice allowing customers to choose a competitive energy supplier or to continue to receive their energy supply from Until during a transition period.

As a result of the progress Until continues to make towards the restructuring of its Massachusetts and New Hampshire Utility Operations, the Company expects all of its utility operating subsidiaries to be operating by the end of 2002 in a post-restructuring environment that reflects the unbundling of energy and delivery services, the recovery of restructuring and transition-related costs through appropriate rate mechanisms and newly established retail distribution rates. The Company is and will continue to be dedicated to the provision of the highest quality gas and electric distribution services to its customers at the lowest or among the lowest rates in the region.

The Company launched its new, interactive customer web site in July 2001. All of our utility customers can now access their accounts and execute transactions - including payment of bills - over the Internet at our web site, [www.until.com](http://www.until.com). This is one of a series of steps to improve service and enhance efficiencies through web-enabled systems reflecting the latest advances in technology.

**Usource Energy Brokering** - In the face of a market contraction of Internet-based business expansion opportunities aimed at mid-market customers, the Company quickly refocused its energy brokering business in the first half of 2001 toward our core customer base. Usource has succeeded in brokerage energy transactions for large and medium-size customers and, in 2001, the Company targeted a deeper penetration of



these customer segments and achieved good revenue growth. Usource was able to extend its reach in the Northeast to include new and expanding markets in Connecticut, Maine, Massachusetts and Pennsylvania.

Usource increased revenues to \$384,000 in 2001 from \$131,000 in 2000 and is prepared to target new customer segments as energy markets continue to deregulate, allowing more customers to choose their energy suppliers. Usource is a broker of electric and natural gas energy supply contracts and does not take title to the commodity being traded. The Company reorganized its Usource operations in 2001 in order to control costs and improve financial performance. The current revenue stream of Usource covers the variable costs of operating this segment, which demonstrated marked improvement in earnings performance over 2000.

Usource serves its customer base by providing a wide range of energy brokering and related services. One way that Usource processes brokering transactions is through an Internet-based retail energy exchange operated by Enermetrix, Inc. (Enermetrix), in which Unitil is an investor. The Enermetrix exchange serves customers in several markets in the Northeast. During the fourth quarter, Unitil recorded a non-cash charge to earnings of \$2.4 million, net of tax (See Investment Write-down) to recognize the decrease in market valuation of its investment in Enermetrix. Usource will continue to optimize value for its customers by seeking the best terms available for the purchase of their energy needs. As the volume of energy brokering grows further, Usource will continue to use the Enermetrix exchange and other available energy trading platforms to execute transactions.

## **EXTRAORDINARY ITEM**

In November 1997, the Massachusetts Legislature enacted landmark electric industry restructuring legislation (the Restructuring Act). The Restructuring Act required all electric utilities to file a restructuring plan with the Massachusetts Department of Telecommunications and Energy (MDTE) by December 31, 1997. The filing of its Restructuring Plan (the Plan) by Unitil's Massachusetts operating subsidiary, FG&E marked an unprecedented turning point in FG&E's 150 year history. Among other things, the Restructuring Act required all Massachusetts electric utilities to sell all of their electric generation assets and to restructure their Utility Operations to provide direct retail access to their customers by all qualified generation suppliers.

The MDTE conditionally approved FG&E's Plan in February 1998, and started an investigation and evidentiary hearings into FG&E's proposed recovery of Regulatory Assets related to stranded generation asset costs and expenses related to the formulation and implementation of its Plan. In January 1999, the MDTE approved FG&E's Plan, which included provisions for the recovery of stranded costs through a transition charge in the Company's electric rates. In September 1999, FG&E filed its first annual reconciliation of stranded generation asset costs and expenses and associated transition charge revenues, and the MDTE initiated a lengthy investigation and hearing process.

On October 18, 2001 and October 19, 2001, the MDTE issued a series of regulatory Orders in several pending cases involving FG&E, including a final Order on FG&E's initial reconciliation filing. Those Orders included the review and disposition of issues related to the Company's recovery of transition costs due to the restructuring of the electric industry in Massachusetts, as well as certain costs associated with gas industry restructuring and preparation and litigation of performance based rate proceedings initiated by the MDTE. The Orders determined the final treatment of Regulatory Assets that FG&E had sought to recover from its Massachusetts electric customers over a multi-year transition period that began in 1998. FG&E has now determined that it is authorized to recover approximately \$150 million of Regulatory Assets attributable to stranded generation assets, purchased power costs and related expenses.

As a result of the industry restructuring-related Orders, FG&E recorded a non-cash adjustment to Regulatory Assets of \$5.3 million, which resulted in the recognition of an extraordinary charge of \$3.9 million, net of tax. The Company recognized the extraordinary charge of \$0.83 per share as of September 30, 2001.

As a result of all of these Orders, the Company has been allowed recovery of its Massachusetts industry restructuring transition costs, estimated at \$150 million, including the above-market or stranded generation and power supply related costs, via a non-bypassable uniform transition charge. FG&E has been and will continue to be subject to annual MDTE investigation and review in order to reconcile the costs and revenues associated with the collection of transition charges from its customers over the next eight to ten years.

## **INVESTMENT WRITE-DOWN**

Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities" addresses the accounting and reporting for investments in equity securities and requires companies to determine whether a decline in the fair value of the investment in equity securities is other than temporary.

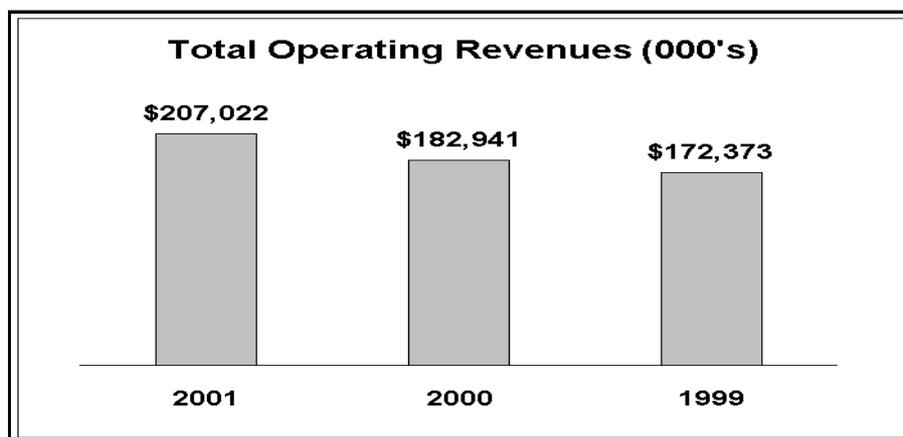
The Company had invested \$5.5 million in Enermetrix, Inc. (Enermetrix), an energy technology start-up enterprise, over the past several years. In accordance with SFAS No. 115, the Company recorded a non-cash charge of \$3.7 million, or \$2.4 million, net of tax, in the fourth quarter to recognize the decrease in fair value of its non-utility investment in Enermetrix. The Company has recorded a tax benefit of \$1.3 million for this capital loss that it expects to realize in 2002. The Company recognized this valuation adjustment in 2001 to reflect significantly lower private equity valuation metrics for companies like Enermetrix and changes in the business outlook of Enermetrix. Enermetrix is a closely held, privately owned company and, as such, has no published market value. Unitil is a non-controlling, minority investor in Enermetrix. Among the contributing factors to management's decision for the reduction in fair value were the general economic downturn in the technology sector, the slower development of competitive markets for energy supply and generally lower market valuations for companies like Enermetrix.

The Company's management considered various sources of information in determining its estimate of the fair value of its Enermetrix investment at December 31, 2001, including previous valuations of Enermetrix performed by independent investment banking firms and the Enermetrix operating forecast. Where those valuations were based upon the value of comparable companies that are publicly traded, and the operating forecast of Enermetrix, those statistics were updated and analyzed.

The Company has valued its investment in Enermetrix at December 31, 2001, at \$1.8 million. Future market value risk is inherent in this investment in Enermetrix, which is an energy technology start-up enterprise. The Company will continue to monitor the value of its investment and periodically assess the impact, if any, on future period reported earnings.

## **RESULTS OF OPERATIONS**

The following graph shows Total Operating Revenues from 1999 to 2001:



## Operating Revenue - Electric

**Unit (kWh) Sales** - Until's total electric kilowatt-hour (kWh) sales increased by 0.6% in 2001 compared to 2000. This increase reflects growth in sales to residential and commercial customer classes, offset by reductions in kWh sales to industrial customers, resulting from the economic downturn experienced in 2001.

Sales to residential customers increased by 3.4% in 2001 compared to 2000, and were 4.3% higher than 1999 sales. The increase in energy sales in 2001, as compared to 2000, was due in part to a 1.2% increase in the number of residential customers. The 4.3% increase in 2001 as compared to 1999 was due in part to a 2.6% increase in residential customers over this two-year period.

Commercial/Industrial sales of electricity were flat in 2001 compared to 2000. Commercial sales increased 3.1% due to customer growth and a warmer summer in 2001 compared to the prior year. Industrial sales decreased 3.7% compared to the prior year, primarily related to the downturn in economic conditions.

Unutil's total electric kWh sales decreased by 1.3% in 2000 compared to 1999. This decrease reflects the loss of a major customer that ceased operations in the second quarter of 2000, and a cooler-than-normal summer in 2000. Absent the loss of this major customer, total kWh sales in 2000 were flat compared to 1999. This primarily reflects continued growth in the number of customers served by the Company, offset by a cooler-than-normal summer season in 2000.

The following table details total kWh sales for the last three years by major customer class:

| kWh Sales (000's)     |           |           |           |
|-----------------------|-----------|-----------|-----------|
|                       | 2001      | 2000      | 1999      |
| Residential           | 596,378   | 576,524   | 571,694   |
| Commercial/Industrial | 1,000,012 | 1,011,012 | 1,037,130 |
| Total                 | 1,596,390 | 1,587,536 | 1,608,824 |

**Electric Operating Revenue** increased by \$23.8 million, or 14.8%, in 2001 compared to 2000. This increase in revenue is a result of increased fuel and energy supply prices. The energy component of Electric Operating Revenue represents the recovery of energy supply costs, which are collected from customers through periodic cost recovery adjustment mechanisms. Changes in energy supply revenues do not affect net income, as they normally mirror corresponding changes in energy supply costs.

In 2000, Electric Operating Revenue increased by \$5.9 million, or 3.9%, as compared to 1999. This increase in revenue is a result of increased fuel and energy supply prices, offset by decreased sales volume.

The following table details total Electric Operating Revenue for the last three years by major customer class:

| Electric Operating Revenue (000's) |            |            |            |
|------------------------------------|------------|------------|------------|
|                                    | 2001       | 2000       | 1999       |
| Residential                        | \$ 71,960  | \$ 61,506  | \$ 58,415  |
| Commercial/Industrial              | 111,820    | 98,517     | 95,662     |
| Total                              | \$ 183,780 | \$ 160,023 | \$ 154,077 |

## Operating Revenues - Gas

**Unit (Therm) Sales** - Total Firm Therm Sales decreased 3.9% in 2001 when compared to 2000, due to a warmer winter heating season compared to the prior year and the impact of an economic downturn.

In 2000, total Firm Therm Sales increased 8.4% compared to 1999, due to a colder winter heating season compared to the prior year, coupled with higher sales volume due to the Company's gas marketing initiatives.

The following table details total Firm Therm Sales for the last three years, by major customer class:

| <b>Firm Therm Sales (000's)</b> |               |        |        |
|---------------------------------|---------------|--------|--------|
|                                 | <b>2001</b>   | 2000   | 1999   |
| Residential                     | <b>11,175</b> | 11,730 | 10,980 |
| Commercial/Industrial           | <b>11,892</b> | 12,262 | 11,156 |
| Total                           | <b>23,067</b> | 23,992 | 22,136 |

**Gas Operating Revenue**, which represents approximately 11% of Unutil's total Operating Revenues, were flat in 2001 compared to 2000. This was attributable to lower unit sales, offset by higher gas supply prices.

In 2000, total Gas Operating Revenue increased by \$4.6 million, or 25.6%, as compared to 1999. This increase was attributable to higher unit sales, as well as increased gas supply prices.

The following table details total Gas Operating Revenue for the last three years by major customer class:

| <b>Gas Operating Revenue (000's)</b> |                  |           |           |
|--------------------------------------|------------------|-----------|-----------|
|                                      | <b>2001</b>      | 2000      | 1999      |
| Residential                          | <b>\$ 12,779</b> | \$ 11,540 | \$ 8,635  |
| Commercial/Industrial                | <b>9,505</b>     | 8,745     | 7,148     |
| Total Firm Gas Revenue               | <b>22,284</b>    | 20,285    | 15,783    |
| Interruptible Gas Revenue            | <b>544</b>       | 2,471     | 2,333     |
| Total                                | <b>\$ 22,828</b> | \$ 22,756 | \$ 18,116 |

## **Operating Revenue - Other**

**Other Revenue** increased \$0.3 million, or 155.6%, compared to 2000. This was the result of growth in the amount of Usource energy brokerage fees.

In 2000, total Other Revenue was flat, as compared to 1999. This was the result of a decrease in revenue generated from consulting activities, offset by an increase in revenues from the Company's non-regulated energy brokering business, Usource.

The following table details total Other Revenue for the last three years:

| <b>Other Revenue (000's)</b> |               |        |        |
|------------------------------|---------------|--------|--------|
|                              | <b>2001</b>   | 2000   | 1999   |
| Usource                      | <b>\$ 384</b> | \$ 131 | \$ 45  |
| Other                        | <b>30</b>     | 31     | 135    |
| Total                        | <b>\$ 414</b> | \$ 162 | \$ 180 |

## **Operating Expenses**

**Fuel and Purchased Power** expense is the cost of purchased power, including fuel used in electric generation and the cost of wholesale energy and capacity purchased to meet Unutil's electric energy requirements. Fuel and Purchased Power expenses, recoverable from customers through periodic cost recovery adjustment mechanisms, increased \$22.7 million, or 20.6%, in 2001 compared to 2000. The change was driven by an increase in wholesale power prices, as the nation experienced volatile markets and rising energy prices in 2000 and early 2001.

In 2000, Fuel and Purchased Power expenses increased \$8.1 million, or 7.9%, as compared to 1999. This change was driven by an increase in wholesale power prices.

**Gas Purchased for Resale** reflects gas purchased and manufactured to supply the Company's total gas energy requirements. Gas supply costs are recoverable from customers through the Cost of Gas Adjustment mechanism. Gas Purchased for Resale increased by \$0.3 million, or 2.5% in 2001 compared to 2000, reflecting a decrease in therms purchased, offset by higher wholesale gas prices in early 2001.

In 2000, Gas Purchased for Resale increased by \$3.6 million, or 36.9%, as compared to 1999, reflecting an increase in therms purchased and significantly higher wholesale gas prices in 2000.

**Operation and Maintenance** expense includes electric and gas utility operating costs, and the operating cost of the Company's non-regulated business activities. Total Operating and Maintenance expense increased \$0.5 million, or 1.9%, in 2001 compared to 2000. Utility Operations accounted for a net increase of \$1.1 million, reflecting higher utility system maintenance costs and an increase in uncollectable account write-offs. Usource operating expenses decreased by \$0.6 million in 2001 compared to 2000, reflecting the Company's refocused operating plan.

In 2000, Operation and Maintenance expense was relatively flat, as compared to 1999. Utility Operations accounted for a net decrease of \$0.4 million, reflecting effective cost management and business process improvements. Usource operating and maintenance expense increased by \$0.6 million in 2000 compared to 1999, reflecting planned sales, marketing, and product development expenditures.

## Depreciation, Amortization and Taxes

**Depreciation and Amortization** expense increased \$0.8 million, or 6.7%, in 2001 compared to 2000, due to a higher level of Plant in Service.

In 2000, Depreciation and Amortization expense increased \$0.6 million, or 4.8%, as compared to 1999, due to a higher level of Plant in Service and accelerated write-off of electric generating assets, due to electric utility industry restructuring in Massachusetts. In addition, the Company incurred higher depreciation and amortization expenses related to Usource in 2000, compared to 1999.

**Federal and State Income Taxes** remained level, reflecting the fact that the Company's effective tax rate remained the same for 2001 and 2000.

In 2000, taxes decreased by \$0.6 million, or 15.7%, compared to 1999, as a result of lower net income before taxes.

**Local Property and Other Taxes** decreased \$0.3 million, or 6.1%, in 2001 compared to 2000. This decrease was related to the repeal of the State of New Hampshire Utility Franchise Tax and implementation of the Business Profits Tax, partially offset by higher property taxes.

In 2000, Local Property and Other Taxes decreased \$0.1 million, or 2.2%, as compared to 1999. This decrease was related to local property tax changes.

## Interest Expense, net

Interest Expense is presented in the Financial Statements, net of Interest Income. In 2001, Interest Expense, net, reflects higher interest expense, offset by an increase in accrued interest income associated with deferred rate recovery mechanisms for Regulatory Assets. Total interest expense was \$9.1 million, \$8.6 million and \$7.6 million in 2001, 2000 and 1999, respectively, due to higher debt outstanding in those years. Interest income was \$2.3 million, \$1.8 million and \$0.7 million in 2001, 2000 and 1999, respectively, reflecting increased deferred restructuring-related costs.

In 2000, Interest Expense, net, decreased \$0.1 million, or 1.4%, as compared to the prior year. An increase in accrued interest income associated with deferred rate recovery mechanisms was offset by higher short-term borrowing rates and a higher level of debt outstanding.

## Usource

For the year ended December 31, 2001, Usource recorded a net loss of \$1.0 million compared to a net loss of \$1.7 million for 2000. The earnings per share impact of the Usource loss was \$0.21 compared to a loss of \$0.35 for 2000. The reduction in Usource losses reflects the Company's refocused operating plan and increased brokerage sales and fees in the Northeast.

## CAPITAL REQUIREMENTS AND LIQUIDITY

Unitil requires capital primarily for the addition of property, plant, and equipment in order to improve, protect, maintain, and expand its electric and gas distribution systems. The capital necessary to meet these requirements is derived primarily from internally generated funds, which consist of cash flows from operating activities, excluding payments of dividends. The Company supplements internally generated funds, as needed, primarily through bank borrowings under unsecured short-term bank lines. As of December 31, 2001, the Company had unsecured bank lines for short-term debt aggregating \$30 million with three banks. At December 31, 2001, the unused portion of these bank lines was \$16.2 million. The amount of short-term borrowings that may be incurred by Unitil and its subsidiaries is subject to periodic approval either by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 or by the respective state regulators. In 2001, the Company received SEC authorization to allow Unitil to incur total short-term borrowings up to a maximum of \$45 million.

The Company periodically repays its short-term debt borrowings through the issuance of permanent long-term debt financing. The Company expects to continue to be able to satisfy its external financing needs by issuing additional short-term and long-term debt. The continued availability of these methods of financing will be dependent on many factors, including security market conditions, economic conditions, regulatory approvals and the level of the Company's income and cash flow.

The SEC recently issued a statement (Release Nos. 33-8056; 34-45321; FR-61) which discussed certain disclosures for inclusion in the financial reporting of public companies, specifically with respect to Management's Discussion and Analysis of Financial Condition and Results of Operations. In line with this statement, the Company has provided the following table, which summarizes the Significant Contractual Obligations of the Company going forward.

| Significant Contractual Obligations (000's) | Total      | Year<br>1 | Years<br>2 & 3 | Years<br>4 & 5 | Years<br>6 and<br>after |
|---|------------|-----------|----------------|----------------|-------------------------|
| Long-term Debt (Note 6)                     | \$ 110,694 | \$ 3,225  | \$ 6,508       | \$ 596         | \$100,365               |
| Capital Lease (Note 8)                      | 5,280      | 1,404     | 1,722          | 802            | 1,352                   |
| Power Supply Buyout - MA (Note 10)          | 88,779     | 7,253     | 14,602         | 14,968         | 51,956                  |
| Purchased Power - NH (Note 10)              | 303,385    | 61,765    | 93,951         | 63,985         | 83,684                  |

Gas Supply Obligations (Note 10)

5,711 3,175 2,536 --- ---

Total Significant Contractual Obligations

**\$ 513,849 \$ 76,822 \$ 119,319 \$ 80,351 \$237,357**

In addition to the significant contractual obligations listed in the above table, the Company also provides limited guarantees on certain energy contracts entered into by its regulated subsidiary companies. The term of these guarantees cannot exceed two years. Currently, there are \$1.1 million of guarantees outstanding and these guarantees expire within the next eighteen months.

**Cash Flows from Operating Activities** increased by \$14.3 million in 2001, after decreasing by \$9.4 million in 2000. The decrease in 2000 and the corresponding increase in 2001 was primarily a result of changes in Accrued Revenues and Accounts Receivable, due to the impact of the volatile and rising energy markets in 2000 and early 2001. There is an inherent ratemaking lag between the period when energy costs increase and the period when the Company collects those higher energy costs from customers. This timing difference is recorded as Accrued Revenue. During the collection lag period, as occurred in 2000, the Company's cash flow is negatively impacted and additional working capital-related short-term borrowings is necessary. Once the Company begins to collect these higher costs through reconciling rate mechanisms, as it did in 2001, cash flow increases and short-term borrowings are repaid.

**Operating Activities** (000's)

|  | 2001      | 2000     | 1999      |
|--|-----------|----------|-----------|
|  | \$ 23,208 | \$ 8,864 | \$ 18,308 |

**Cash Flows Used in Investing Activities** decreased approximately \$2.7 million in 2001, primarily reflecting a \$1.2 million reduction in capital expenditures on distribution system additions and improvements, the receipt of \$0.3 million of proceeds from the sale of the Company's interest in Millstone 3 and reduction of unregulated investment activities. Cash Flows Used in Investment Activities increased approximately \$7.1 million in 2000, primarily reflecting cash proceeds of \$5.3 million for the sale of the Company's 4.5% interest in New Haven Harbor Station, which was received in 1999.

Capital expenditures are projected to decrease in 2002 to approximately \$19.2 million, primarily reflecting lower planned expenditures on the Company's non-regulated business activities offset by increased expenditures for utility distribution system improvements.

**Investing Activities** (000's)

|  | 2001        | 2000        | 1999        |
|--|-------------|-------------|-------------|
|  | \$ (19,578) | \$ (22,249) | \$ (15,131) |

**Cash Flows from Financing Activities** decreased by \$14.2 million in 2001 compared to 2000. This decrease primarily reflects proceeds received from the issuance of long-term debt, offset by a repayment of short- and long-term borrowings. During 2001, three of the Company's utility subsidiaries issued long-term debt totaling \$29.0 million. The proceeds were used to reduce short-term debt aggregating \$18.7 million and to provide long-term funding for a portion of its additions to gas and electric distribution plant and equipment (See Note 6). Cash Flows from Financing Activities increased by \$18.0 million in 2000 compared to 1999. This increase reflected a higher level of borrowing in 2000 versus 1999 to fund the Company's capital expenditure program and working capital requirements. In particular, as previously discussed, the time lag between increases in energy costs and corresponding recovery from customers resulted in the Company incurring short-term debt to fund the interim working capital needs of the Company's energy cost obligations.

As a result of rising and volatile wholesale gas and electric energy prices in 2000 and early 2001, the Company filed and obtained authorization from the SEC under the 1935 Act to increase its maximum short-term borrowing level to \$45 million. Further, the Company negotiated with its banks to increase its lines of credit to meet its borrowing obligations. On several occasions, the Company filed rate adjustments to its reconciling cost recovery mechanisms to reflect changes in wholesale energy prices during 2001. In 2001, as wholesale energy prices declined significantly, the Company obtained regulatory approval to reduce rates correspondingly to reflect lower energy costs.

During 2000 and 2001, respectively, the Company raised \$0.6 and \$0.3 million of additional common equity capital through the issuance of 22,916 and 11,279 shares of Common Stock in connection with the Dividend Reinvestment and Stock Purchase plans. During 2001, the Company moved to open-market purchases to meet its share issuance obligations under these plans. As a result, the Company does not anticipate issuing new original issue shares of Common Stock in connection with these plans in the next year. In conjunction with the SEC Emergency Orders of September 14 and 21, 2001, which suspended the applicability of certain of the conditions contained in its Rule 10b-18, the Company implemented an interim Common Stock repurchase program. Under this program, the Company repurchased, canceled and retired 2,500 of its outstanding Common shares at a total cost of \$58,000. The SEC has since lifted its suspension of the aforementioned conditions and accordingly, the Company's interim Common Stock repurchase program is no longer in effect.

Unitil's annual Common Stock dividend in 2001 was \$1.38 per share. This annual dividend resulted in a payout ratio of 91%, for the year, before the Investment Write-down and Extraordinary Item. Excluding the loss from Non-regulated Operations, the payout ratio was 80% based on Utility Operations, before the Investment Write-down and Extraordinary Item. At its January 2002 meeting, the Unitil Board of Directors declared a regular quarterly dividend on the Company's Common Stock of \$0.345 per share. This quarterly dividend reflects the current annual dividend rate of \$1.38 per share.

**Financing Activities** (000's)

|  | 2001     | 2000      | 1999       |
|--|----------|-----------|------------|
|  | \$ (614) | \$ 13,598 | \$ (4,413) |

## REGULATORY MATTERS

The Until Companies are regulated by various federal and state agencies, including the Securities and Exchange Commission (SEC), the Federal Energy Regulatory Commission (FERC), and state regulatory authorities with jurisdiction over the utility industry, including the New Hampshire Public Utilities Commission (NHPUC) and the Massachusetts Department of Telecommunications and Energy (MDTE). In recent years, there has been significant legislative and regulatory activity to restructure the utility industry to introduce greater competition in the supply and sale of electricity and gas, while continuing to regulate the distribution operations of Until's utility operating subsidiaries.

Massachusetts enacted the Electric Restructuring Act of 1997 (the Restructuring Act) requiring the comprehensive restructuring of the electric utility industry in the State. Since March 1, 1998, all electric consumers in Massachusetts served by investor-owned utilities have had the ability to choose their electric energy supplier. FG&E, the Company's Massachusetts based combination gas and electric utility, has continued to implement its comprehensive electric Restructuring Plan, and has completed the divestiture of its entire regulated power supply business, including its nuclear investment in Millstone 3.

At the direction of the MDTE, in 1997, FG&E and other Massachusetts gas distribution utilities initiated an industry-wide collaborative process to develop a common set of principles to restructure their gas service and implement the necessary infrastructure to offer gas customers choice of their competitive gas energy supplier. FG&E filed new gas tariffs with the MDTE to implement natural gas unbundling in accordance with the principles resulting from this collaborative effort. The MDTE approved these tariffs and regulations governing the unbundling of gas services effective November 1, 2000.

In New Hampshire, Concord Electric Company (CECo) and Exeter & Hampton Electric Company (E&H), the Company's electric distribution operating subsidiaries, and Until Power Corp. (UPC), the Company's wholesale power supply company, continue to prepare for the transition to a new market structure. As discussed further below, on January 25, 2002, the Companies filed a comprehensive restructuring proposal with the NHPUC to comply with the State's restructuring law and provide retail choice to its customers. Until has also been an active participant in the restructuring of the wholesale power market and transmission system in New England. New wholesale markets have been implemented in the New England Power Pool (NEPOOL) under the general supervision of an Independent System Operator (ISO) and the regulatory oversight of the FERC.

**Massachusetts Electric Operations Restructuring** - On January 15, 1999, the MDTE approved the provisions of FG&E's Electric Restructuring Plan with certain modifications. Under the Restructuring Plan, FG&E must provide its customers with: a) the ability to choose a competitive energy supplier; b) an option to purchase standard offer service or default service provided by FG&E; and c) a cumulative 15% rate reduction adjusted for inflation.

As a result of the restructuring and divestiture of FG&E's entire generation and purchased power portfolio, FG&E has accelerated the amortization of its stranded electric generation assets and its abandoned investment in Seabrook Station. FG&E continues to earn an authorized rate of return on the unamortized balance of these Regulatory Assets. In addition, as a result of the rate reduction requirement of the Restructuring Act, FG&E has been authorized to defer the recovery of a portion of its transition costs and standard offer service costs. These unrecovered amounts are also recorded as Regulatory Assets and earn authorized carrying charges until their subsequent recovery in future periods. As the value of FG&E's Regulatory Assets are amortized and/or recovered over the next eight to ten years, income from this segment of FG&E's utility business will continue to decline and ultimately cease.

In accordance with its Restructuring Plan, each year FG&E adjusts its unbundled rate components, including the component that recovers its transition costs, to reconcile any differences between its estimated and actual costs from the prior year. These rate adjustments are subject to the required inflation-adjusted 15% rate discount. FG&E has made three such filings - in 1999, 2000, and 2001. Rate adjustments were approved for effect during the subsequent year, subject to further investigation.

The investigation of FG&E's initial reconciliation filing was initiated in 2000. On October 18, 2001 and October 19, 2001, the MDTE issued a series of regulatory Orders in several pending cases involving FG&E, including a final Order on FG&E's initial reconciliation filing. Those Orders included the review and disposition of issues related to the Company's recovery of transition costs due to the restructuring of the electric industry in Massachusetts, as well as certain costs associated with gas industry restructuring and preparation and litigation of performance based rate proceedings initiated by the MDTE. The Orders determined the final treatment of Regulatory Assets that FG&E had sought to recover from its Massachusetts electric customers over a multi-year transition period that began in 1998. FG&E has now determined that it is authorized to recover approximately \$150 million of Regulatory Assets attributable to stranded generation assets, purchased power costs and related expenses. As a result of these Orders, FG&E recorded a non-cash adjustment to Regulatory Assets of \$5.3 million in the third quarter of 2001, which resulted in the recognition of an extraordinary charge of \$3.9 million after taxes. FG&E will continue to be subject to annual MDTE investigation and review in order to reconcile its restructuring-related costs and revenues, including its transition charge and standard offer service charge.

FG&E's third annual reconciliation and rate adjustment filing, filed on December 2, 2001, included a recast of its rates from 1998 through 2001 in compliance with the MDTE's final Order on its initial reconciliation filing. The investigation of the initial reconciliation filing specifically covered the period March 1998 through October 1999, however most of the MDTE's cost recovery findings apply after October 1999 as well. As part of this filing, FG&E also reduced its standard offer service fuel adjustment (SOSFA) reflecting lower fuel oil and natural gas costs. The SOSFA is a rate mechanism approved as part of restructuring plans in Massachusetts that provides for the recovery of excessive fuel costs based on a fuel trigger. Revenues collected under the trigger are passed on to standard offer service suppliers. Under the proposed SOSFA, FG&E estimates that all of its SOSFA-related costs, including deferred amounts of about \$4.5 million, will be recovered by the end of November 2002.

On December 27, 2001, the MDTE approved FG&E's SOSFA and base rates for effect January 1, 2002, subject to further investigation. With the MDTE's resolution of cost recovery issues in its October 2001 Orders and anticipated final approval of FG&E's compliance filing, FG&E's financial risk associated with its unbundled cost recovery mechanisms is significantly reduced. The MDTE also allowed FG&E to implement the SOSFA for 2002. FG&E is required to notify the MDTE 45 days in advance of when all SOSFA-related costs are projected to be recovered.

**Massachusetts Gas Operations Restructuring** - As indicated above, in 1997, the MDTE directed all Massachusetts natural gas Local Distribution Companies (LDCs) to form a collaborative with other stakeholders to develop common principles and appropriate regulations for the unbundling of gas service. In November 1999, the LDCs petitioned the MDTE for approval of regulations governing the unbundling of gas services that were developed with the input of participants of the collaborative. Effective November 1, 2000, the MDTE adopted these regulations and LDC tariffs, including those of FG&E, filed in accordance with the principles developed in the collaborative process. Retail customers are now free to choose a competitive gas supplier, if they wish.

As part of this proceeding, in February 1999, the MDTE issued an Order in which it determined that the LDCs would continue to have an obligation to provide gas supply and delivery services for another five years, with a review after three years. This Order also set forth the MDTE's decision requiring mandatory assignment by LDCs of their pipeline capacity contracts to competitive marketers.

**New Hampshire Electric Operations Restructuring** - On February 28, 1997, the NHPUC issued its Final Plan in response to the New Hampshire Electric Restructuring Law RSA 374-F, passed into law in 1996, for New Hampshire electric utilities to transition to a competitive electric

market in the State. The Final Plan linked the interim recovery of stranded cost by the State's utilities to a comparison of their existing rates with the regional average utility rates. CECO's and E&H's rates are below the regional average; thus, the NHPUC found that CECO and E&H were entitled to full interim stranded cost recovery. However, the NHPUC also made certain legal rulings that could affect CECO's and E&H's long-term ability to recover all of their stranded costs. The Company cannot predict the final outcome of the restructuring of its Utility Operations in New Hampshire but believes that final resolution of this restructuring process will result in recovery of substantially all its stranded and restructuring-related costs.

Northeast Utilities' affiliate, Public Service Company of New Hampshire (PSNH), filed suit in U.S. District Court for protection from the Final Plan and related orders and was granted an indefinite stay. In June 1997, Unutil, and other utilities in New Hampshire, intervened as plaintiffs in the federal court proceeding. In June 1998, the federal court clarified that the injunctions issued by the court in 1997 had effectively frozen the NHPUC's efforts to implement restructuring. This amended injunction has been challenged by the NHPUC, and affirmed by the First Circuit Court of Appeals. Unutil continues to be a plaintiff-intervenor in federal district court. In October 2000, the NHPUC approved a settlement for the restructuring of PSNH, which was implemented on May 1, 2001.

The Company has continued to work actively to explore settlement options and to seek a fair and reasonable resolution of key restructuring policies and issues in New Hampshire. The Company is also monitoring the regulatory and legislative proceedings dealing with electric restructuring in the State. As indicated above, the Company filed a comprehensive restructuring proposal with the NHPUC on January 25, 2002. If approved, the Company would withdraw its complaint from the federal court proceeding. The restructuring proposal, if approved, will go into effect on or before November 1, 2002. Under the restructuring proposal, the Company's customers will be allowed to choose a competitive energy supplier, while electricity delivery services will continue to be provided by Unutil. Unutil will sell its portfolio of electricity supply contracts and recover the residual stranded costs over a period of years. Unutil will offer customers a three-year transition service at specified prices and a permanent default service. These services will be procured from the competitive wholesale market.

As part of the restructuring, Unutil is also proposing to combine CECO, E&H, and the remaining functions of UPC into a single distribution utility, Unutil Energy Systems, Inc. As part of the filing, Unutil filed new, consolidated tariff and rate schedules for distribution service in NH and is seeking an increase in base rates for distribution service. Rate levels and rate components applicable to all Unutil customers will change as a result, but overall rate levels are expected to be below rate levels in effect at the time of filing.

**Rate Proceedings** - Aside from Unutil's NH restructuring proposal discussed above, the last formal regulatory filings initiated by the Company to increase base rates for Unutil's three retail electric operating subsidiaries occurred in 1985 for CECO, 1984 for FG&E, and 1981 for E&H. A majority of the Company's electric operating revenues are collected under various periodic rate adjustment mechanisms including fuel, purchased power, cost of gas, energy efficiency, and restructuring-related cost recovery mechanisms. Electric industry restructuring will continue to change the methods of how certain costs are recovered through the Company's regulated rates and tariffs.

On the gas side, during FG&E's 1998 gas base rate case proceeding, the Massachusetts Attorney General alleged that FG&E had over-collected fuel inventory finance charges, and requested that the MDTE require FG&E to refund approximately \$1.6 million of charges collected since 1987. The Company believes that the Attorney General's claim is without merit and that a refund was not justified or warranted. Following the MDTE's November 1, 1999 Order initiating an investigation, the MDTE held hearings in 2000. On May 31, 2001, the MDTE issued an Order in this proceeding, finding that FG&E had over-collected the costs in its Cost of Gas Adjustment Clause (CGAC) mechanism and ordered FG&E to return these costs, in the approximate amount of \$0.7 million plus accumulated and future interest, to customers over the same number of years they were collected. On October 10, 2001, FG&E filed a Motion for Stay pending appeal and Memorandum of Law in Support with the Supreme Judicial Court (SJC). On November 16, 2001, the SJC denied the Motion for Stay, stating that any refunds made by FG&E may be recouped if FG&E prevails before the SJC on the merits of its claims. FG&E has begun to implement a multi-year refund of approximately \$0.2 million per year through its CGAC mechanism in compliance with the MDTE's Order. The review of the MDTE Order by the SJC is currently pending. FG&E continues to assert that no refund is justified or warranted as a matter of fact or law; however, management cannot predict the outcome of this litigation.

On December 31, 1999, the Massachusetts Attorney General filed a complaint under G.L. c. 164, sec. 93, against FG&E requesting that the MDTE investigate the distribution rates, rate of return, and depreciation accrual rates for FG&E's electric operations in calendar year 1999. The MDTE opened a proceeding in November 2000 and investigated the matter in 2001. On October 18, 2001, the MDTE issued an Order, finding that FG&E's electric distribution base rates would annually generate an excess of approximately \$1.2 million in revenue and ordered FG&E to reduce its electric base rates, effective that same day. FG&E submitted its compliance filing on October 19, 2001, and received approval of its filing on October 24, 2001.

**Performance Based Ratemaking** - On October 29, 1999, the MDTE initiated a proceeding to establish guidelines for service quality standards to be included in Performance Based Ratemaking (PBR) plans for all electric and gas distribution utilities in Massachusetts. PBR is a method of setting regulated distribution rates that provides incentives for utilities to control costs while maintaining a high level of service quality. Under PBR, a company's earnings are tied to performance targets and penalties can be imposed for deterioration of service quality. The MDTE issued an Order on June 29, 2001, establishing guidelines for implementation of service-quality measurement programs by gas and electric companies operating under PBR. On October 29, 2001, FG&E filed its Service Quality Plan for its Gas and Electric Divisions as required by the MDTE. On December 5, 2001, FG&E received approval of its Service Quality Plan for its Electric Division, subject to modification pending the conclusion of the service quality proceeding. Approval of the plan for the Gas Division is pending. FG&E's Gas Division will be filing a PBR plan in April 2002. The requirement to file a PBR plan for the Gas Division stems from FG&E's 1998 gas rate case. FG&E is required to file a PBR plan for its Electric Division in its next electric rate case. The Company is preparing to file such a plan in April 2002. The PBR plan will establish new distribution rates through a traditional cost of service rate proceeding, service quality standards and penalties, and procedures for adjusting retail rates to reflect cost inflation and other factors over the term of the PBR plan.

## ENVIRONMENTAL MATTERS

**Sawyer Passway MGP Site** - The Company continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. FG&E, the Company's Massachusetts utility operating subsidiary, has proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection (DEP), which allows the Company to work towards temporary remediation of the site. The last remaining portion of environmental remediation work necessary to achieve temporary closure of the Sawyer Passway MGP site was completed in late 2001. A status of temporary closure requires FG&E to monitor the site until a feasible permanent remediation alternative can be developed and completed.

Since 1991, FG&E has recovered the environmental response costs incurred at this former MGP site pursuant to a MDTE approved Settlement Agreement (Agreement) between FG&E, certain other Massachusetts gas utilities and the Massachusetts Attorney General. The Agreement allows FG&E to amortize and recover from gas customers over succeeding seven-year periods the environmental response costs incurred each year. Environmental response costs are defined to include liabilities related to manufactured gas sites, waste disposal sites or other sites onto which

hazardous material may have migrated as a result of the operation or decommissioning of Massachusetts gas manufacturing facilities from 1882 through 1978. FG&E does not recover carrying charges associated with these costs and any tax benefits related to the payment of such costs are credited to customers in the year they are realized. In addition, any recovery that FG&E receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between FG&E and customers. The total annual charge for such cost assessed to customers cannot exceed five percent of FG&E's total revenue for firm gas sales during the preceding year. Cost in excess of five percent will be deferred for recovery in subsequent years.

**Former Electric Generating Station** - The Company is investigating environmental conditions at a former electric generating station located at Sawyer Passway, which FG&E sold to WRW, a general partnership, in 1983. Rockware International Corporation (Rockware), an affiliate of WRW, acquired rights to the electric equipment in the building and intended to remove, recondition and sell this equipment. During 1985, Rockware demolished several exterior walls of the generating station in order to facilitate removal of certain equipment. The demolition of the walls and the removal of generating equipment resulted in damage to asbestos containing insulation materials inside the building, which had been intact and encapsulated at time of the sale of the structure to WRW.

When Rockware and WRW encountered financial difficulties and ignored orders of the environmental regulators to remedy the situation, FG&E agreed to take steps and obtained DEP approval to temporarily enclose, secure and stabilize the facility. Based on that approval, between September and December 1989, contractors retained by the Company stabilized the facility and secured the building. This work did not permanently resolve the asbestos problems caused by Rockware, but was deemed sufficient for the then foreseeable future.

FG&E, working closely with the DEP and the Massachusetts Attorney General, brought an action in 1986 in the Worcester Superior Court, against Rockware. On July 16, 1990, FG&E filed an amended complaint and obtained a preliminary injunction barring Rockware from removing anything of value from the Fitchburg facility and barring it from further encumbering the property. It also obtained an attachment encumbering all of Rockware's goods, equipment and property, located in Fitchburg, Massachusetts. On June 3, 1993, FG&E, Rockware and WRW entered into an agreement for judgement in favor of the Company in the amount of \$1.6 million and the preliminary injunctions became permanent. FG&E has been unable to collect any amounts from WRW and/or Rockware due to their bankruptcies.

In addition to its efforts to obtain reimbursement and indemnification from WRW and Rockware, FG&E entered into negotiations with its insurers. FG&E reached an interim settlement with its excess insurer and a final settlement with its primary insurer, which provided reimbursement for most of the costs that had been incurred to secure and stabilize the facility at that time.

Due to the continuing deterioration of this former electric generating station and Rockware's continued lack of performance, FG&E, in concert with the DEP and the U.S. Environmental Protection Agency (EPA), conducted further testing and survey work during 2001 to ascertain the environmental status of the building. These recent surveys have revealed continued deterioration of the asbestos containing insulation materials in the building. During an informal meeting on February 8, 2002, the EPA and DEP indicated to the Company that remedial actions are necessary. The Company anticipates receiving a Notice of Responsibility from the EPA by the end of the first quarter of 2002. The Company anticipates that this Notice will require specific remedial action, including abatement and removal of asbestos containing materials. At this time, the Company is uncertain as to the cost of the further remedial action that may be required by environmental regulators or for what portion of the cost the Company will be held responsible. However, the Company believes that its liability insurance policies will provide significant coverage for the costs of any clean-up effort and that the ultimate resolution of these matters will not have a material adverse impact on the Company's financial position.

**Market Risk** - Although Unital's utility operating companies are active in markets which are subject to commodity price risk, the current regulatory framework within which these companies operate allows for full collection of fuel and gas costs in rates. Consequently, there is limited commodity price risk exposure after consideration of the related rate-making. As the utility industry continues to deregulate, the Company will be divesting its commodity-related energy businesses and therefore will be further reducing its exposure to commodity-related risk.

## **FORWARD-LOOKING INFORMATION**

This report contains forward-looking statements, which are subject to the inherent uncertainties in predicting future results and conditions. Certain factors that could cause the actual results to differ materially from those projected in these forward-looking statements include, but are not limited to: variations in weather, changes in the regulatory environment, customers' preferences on energy sources, general economic conditions, increased competition and other uncertainties, all of which are difficult to predict, and many of which are beyond the control of the Company.

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

Reference is made to the "Market Risk section of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" (above).

### **Item 8. Financial Statements and Supplemental Data**

## **Report of Independent Certified Public Accountants**

To the Shareholders of Unital Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of Unital Corporation and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of earnings, cash flows and changes in common stock equity for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unital Corporation and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Boston, Massachusetts  
February 5, 2002

## CONSOLIDATED STATEMENTS OF EARNINGS

(000's, except common shares and per share data)

| Year Ended December 31,  | 2001          | 2000          | 1999          |
|--|---------------|---------------|---------------|
| <b>Operating Revenues:</b>   |               |               |               |
| Electric   | \$ 183,780    | \$ 160,023    | \$ 154,077    |
| Gas  | 22,828        | 22,756        | 18,116        |
| Other  | 414           | 162           | 180           |
| Total Operating Revenues   | 207,022       | 182,941       | 172,373       |
| <b>Operating Expenses:</b>   |               |               |               |
| Fuel and Purchased Power   | 132,947       | 110,280       | 102,171       |
| Gas Purchased for Resale   | 13,827        | 13,492        | 9,854         |
| Operation and Maintenance  | 25,000        | 24,545        | 24,404        |
| Depreciation and Amortization                                      | 12,767        | 11,964        | 11,412        |
| Provisions for Taxes:  |               |               |               |
| Local Property and Other   | 4,666         | 4,967         | 5,077         |
| Federal and State Income   | 3,421         | 3,413         | 4,047         |
| Total Operating Expenses   | 192,628       | 168,661       | 156,965       |
| <b>Operating Income</b>  | <b>14,394</b> | <b>14,280</b> | <b>15,408</b> |
| Non-Operating Expenses:  |               |               |               |
| Decrease in Market Value of<br>Non-Utility Investments, net of tax | 2,400         | ----          | ----          |
| Other Non-Operating Expenses                                       | 170           | 244           | 51            |
| <b>Income Before Interest Expense<br/>and Extraordinary Item</b>   | <b>11,824</b> | <b>14,036</b> | <b>15,357</b> |
| Interest Expense, net  | 6,797         | 6,820         | 6,919         |
| <b>Net Income before Extraordinary Item</b>                        | <b>5,027</b>  | <b>7,216</b>  | <b>8,438</b>  |
| Extraordinary Item, net of tax                                     | (3,937)       | ----          | ----          |

|  |                  |           |           |
|--|------------------|-----------|-----------|
| <b>Net Income</b>                            | <b>1,090</b>     | 7,216     | 8,438     |
| Less Dividends on Preferred Stock            | <b>257</b>       | 263       | 268       |
| <b>Net Income Applicable to Common Stock</b> | <b>\$ 833</b>    | \$ 6,953  | \$ 8,170  |
| Average Common Shares Outstanding - Basic    | <b>4,743,576</b> | 4,723,171 | 4,682,273 |
| Average Common Shares Outstanding - Diluted  | <b>4,759,822</b> | 4,742,745 | 4,697,049 |

**Basic and Diluted Earnings per Common Share**

|                                      |                |         |         |
|--------------------------------------|----------------|---------|---------|
| Net Income before Extraordinary Item | <b>\$ 1.01</b> | \$ 1.47 | \$ 1.74 |
| Extraordinary Item, net of tax       | <b>(0.83)</b>  | ----    | ----    |
| Net Income                           | <b>\$ 0.18</b> | \$ 1.47 | \$ 1.74 |

*(The accompanying Notes are an integral part of these financial statements.)*

**CONSOLIDATED BALANCE SHEETS** (000'S)

**ASSETS**

| December 31,   | 2001              | 2000              |
|--|-------------------|-------------------|
| <b>Utility Plant:</b>  |                   |                   |
| Electric   | \$ 183,795        | \$ 174,049        |
| Gas  | 41,287            | 36,996            |
| Common   | 28,529            | 25,260            |
| Construction Work in Progress  | 1,887             | 1,718             |
|  | <hr/>             | <hr/>             |
| Utility Plant  | 255,498           | 238,023           |
| Less: Accumulated Depreciation   | 77,210            | 71,036            |
|  | <hr/>             | <hr/>             |
| Net Utility Plant  | 178,288           | 166,987           |
|  | <hr/>             | <hr/>             |
| <b>Other Property and Investments</b>  | 2,286             | 6,074             |
|  | <hr/>             | <hr/>             |
| <b>Current Assets:</b>   |                   |                   |
| Cash   | 6,076             | 3,060             |
| Accounts Receivable - Less Allowance for<br>Doubtful Accounts of \$600 and \$596 | 17,133            | 20,057            |
| Refundable Taxes   | 2,432             | 1,980             |
| Material and Supplies  | 2,804             | 2,854             |
| Prepayments  | 1,889             | 1,317             |
| Accrued Revenue  | 1,330             | 9,303             |
|  | <hr/>             | <hr/>             |
| Total Current Assets   | 31,664            | 38,571            |
|  | <hr/>             | <hr/>             |
| <b>Noncurrent Assets:</b>  |                   |                   |
| Regulatory Assets  | 149,672           | 156,763           |
| Prepaid Pension Costs  | 10,712            | 9,996             |
| Debt Issuance Costs  | 1,826             | 1,479             |
| Other Noncurrent Assets  | 2,314             | 3,097             |
|  | <hr/>             | <hr/>             |
| Total Noncurrent Assets  | 164,524           | 171,335           |
|  | <hr/>             | <hr/>             |
| <b>TOTAL</b>   | <b>\$ 376,762</b> | <b>\$ 382,967</b> |

(The accompanying Notes are an integral part of these financial statements.)

## CONSOLIDATED BALANCE SHEETS (Cont.) (000'S)

### CAPITALIZATION AND LIABILITIES

| December 31,                                    | 2001              | 2000              |
|---|-------------------|-------------------|
| <b>Capitalization:</b>                          |                   |                   |
| Common Stock Equity                             | \$ 74,746         | \$ 79,935         |
| Preferred Stock, Non-Redeemable, Non-Cumulative | 225               | 225               |
| Preferred Stock, Redeemable, Cumulative         | 3,384             | 3,465             |
| Long-Term Debt, Less Current Portion            | 107,470           | 81,695            |
| Total Capitalization                            | 185,825           | 165,320           |
| <b>Current Liabilities:</b>                     |                   |                   |
| Long-Term Debt, Current Portion                 | 3,224             | 3,207             |
| Capitalized Leases, Current Portion             | 988               | 935               |
| Accounts Payable                                | 20,084            | 18,539            |
| Short-Term Debt                                 | 13,800            | 32,500            |
| Dividends Declared and Payable                  | 109               | 209               |
| Refundable Customer Deposits                    | 1,393             | 1,252             |
| Interest Payable                                | 1,375             | 1,150             |
| Other Current Liabilities                       | 6,328             | 6,377             |
| Total Current Liabilities                       | 47,301            | 64,169            |
| Deferred Income Taxes                           | 47,113            | 45,859            |
| <b>Noncurrent Liabilities:</b>                  |                   |                   |
| Power Supply Contract Obligations               | 88,779            | 97,342            |
| Capitalized Leases, Less Current Portion        | 2,945             | 3,259             |
| Other Noncurrent Liabilities                    | 4,799             | 7,018             |
| Total Noncurrent Liabilities                    | 96,523            | 107,619           |
| <b>TOTAL</b>                                    | <b>\$ 376,762</b> | <b>\$ 382,967</b> |

(The accompanying Notes are an integral part of these financial statements.)

## CONSOLIDATED STATEMENTS OF CAPITALIZATION

(000's except number of shares and par value)

| December 31,  | 2001      | 2000      |
|---|-----------|-----------|
| <b>Common Stock Equity</b>  |           |           |
| Common Stock, No Par Value (Authorized - 8,000,000 shares;<br>Outstanding - 1,740,000 and 1,704,017 shares) | \$ 41,220 | \$ 40,991 |

Outstanding - 4,743,096 and 4,734,917 Shares)

|                           |        |        |
|---------------------------|--------|--------|
| Stock Options             | 669    | 376    |
| Retained Earnings         | 32,857 | 38,568 |
| Total Common Stock Equity | 74,746 | 79,935 |

#### Preferred Stock

|   |       |       |
|---|-------|-------|
| CECo Preferred Stock, Non-Redeemable, Non-Cumulative: |       |       |
| 6.00% Series, \$100 Par Value                         | 225   | 225   |
| CECo Preferred Stock, Redeemable, Cumulative:         |       |       |
| 8.70% Series, \$100 Par Value                         | 215   | 215   |
| E&H Preferred Stock, Redeemable, Cumulative:          |       |       |
| 5.00% Series, \$100 Par Value                         | 91    | 91    |
| 6.00% Series, \$100 Par Value                         | 168   | 168   |
| 8.75% Series, \$100 Par Value                         | 333   | 333   |
| 8.25% Series, \$100 Par Value                         | 385   | 385   |
| FG&E Preferred Stock, Redeemable, Cumulative:         |       |       |
| 5.125% Series, \$100 Par Value                        | 960   | 973   |
| 8.00% Series, \$100 Par Value                         | 1,232 | 1,300 |
| Total Preferred Stock                                 | 3,609 | 3,690 |

#### Long-Term Debt

|  |         |        |
|--|---------|--------|
| CECo First Mortgage Bonds:                 |         |        |
| Series I, 8.49%, Due October 14, 2024      | 6,000   | 6,000  |
| Series J, 6.96%, Due September 1, 2028     | 10,000  | 10,000 |
| Series K, 8.00%, Due May 1, 2031           | 7,500   | ---    |
| E&H First Mortgage Bonds:                  |         |        |
| Series K, 8.49%, Due October 14, 2024      | 9,000   | 9,000  |
| Series L, 6.96%, Due September 1, 2028     | 10,000  | 10,000 |
| Series M, 8.00%, Due May 1, 2031           | 7,500   | ---    |
| FG&E Long-Term Notes:                      |         |        |
| 8.55% Notes, Due March 31, 2004            | 9,000   | 12,000 |
| 6.75% Notes, Due November 30, 2023         | 19,000  | 19,000 |
| 7.37% Notes, Due January 15, 2029          | 12,000  | 12,000 |
| 7.98% Notes, Due June 1, 2031              | 14,000  | ---    |
| Unitil Realty Corp. Senior Secured Notes:  |         |        |
| 8.00% Notes, Due August 1, 2017            | 6,694   | 6,902  |
| Total Long-Term Debt                       | 110,694 | 84,902 |
| Less: Long-Term Debt, Current Portion      | 3,224   | 3,207  |
| Total Long-Term Debt, Less Current Portion | 107,470 | 81,695 |

#### Total Capitalization

|           |                |           |                |
|-----------|----------------|-----------|----------------|
| <b>\$</b> | <b>185,825</b> | <b>\$</b> | <b>165,320</b> |
|-----------|----------------|-----------|----------------|

(The accompanying Notes are an integral part of these financial statements.)

### CONSOLIDATED STATEMENT OF CASH FLOWS (000's)

| Year Ended December 31,   | 2001     | 2000     | 1999     |
|---|----------|----------|----------|
| <b>Cash Flows from Operating Activities:</b>                                  |          |          |          |
| Net Income  | \$ 1,090 | \$ 7,216 | \$ 8,438 |
| Adjustments to Reconcile Net Income to Cash Provided by Operating Activities: |          |          |          |
| Depreciation and Amortization   | 12,767   | 11,964   | 11,412   |
| Deferred Tax Provision  | (607)    | 3,522    | 72       |
| Amortization of Investment Tax Credit   | (153)    | (256)    | (322)    |
| Changes in Current Assets and Liabilities:                                    |          |          |          |
| Accounts Receivable   | 2,924    | (3,427)  | (631)    |
| Prepayments and other   | (1,690)  | (2,393)  | 2        |
| Accrued Revenue   | 7,973    | (6,310)  | (1,087)  |

|  |                 |          |          |
|--|-----------------|----------|----------|
| Accounts Payable                                     | 1,545           | 2,024    | 5,133    |
| Interest Payable and other                           | 366             | (145)    | 413      |
| Other, net   | (1,007)         | (3,301)  | (5,122)  |
| Cash Provided by Operating Activities                | <b>23,208</b>   | 8,864    | 18,308   |
| <b>Cash Flows from Investing Activities:</b>         |                 |          |          |
| Acquisitions of Property, Plant and Equipment        | (19,890)        | (21,092) | (15,411) |
| Proceeds from the Sale of Electric Generating Assets | 342             | ---      | 5,288    |
| Acquisitions of Other Property and Investments       | (30)            | (1,157)  | (5,008)  |
| Cash Used in Investing Activities                    | <b>(19,578)</b> | (22,249) | (15,131) |
| <b>Cash Flows from Financing Activities:</b>         |                 |          |          |
| Proceeds from (Repayment of) Short-Term Debt, net    | (18,700)        | 22,000   | (9,500)  |
| Proceeds from Issuance of Long-Term Debt             | 29,000          | ---      | 12,000   |
| Repayment of Long-Term Debt                          | (3,208)         | (1,255)  | (1,065)  |
| Dividends Paid                                       | (6,902)         | (6,787)  | (6,722)  |
| Issuance of Common Stock, net                        | 229             | 639      | 1,945    |
| Retirement of Preferred Stock                        | (81)            | (68)     | (86)     |
| Repayment of Capital Lease Obligations               | (952)           | (931)    | (985)    |
| Cash (Used In) Provided by Financing Activities      | <b>(614)</b>    | 13,598   | (4,413)  |
| Net Increase (Decrease) in Cash                      | <b>3,016</b>    | 213      | (1,236)  |
| Cash at Beginning of Year                            | <b>3,060</b>    | 2,847    | 4,083    |
| Cash at End of Year                                  | <b>\$ 6,076</b> | \$ 3,060 | \$ 2,847 |
| <b>Supplemental Cash Flow Information:</b>           |                 |          |          |
| Interest Paid  | \$ 8,988        | \$ 8,640 | \$ 7,164 |
| Federal Income Taxes Paid                            | \$ 3,174        | \$ 350   | \$ 4,018 |
| State Income Taxes Paid                              | \$ 1,091        | \$ 477   | \$ 700   |
| <b>Supplemental Schedule of Noncash Activities:</b>  |                 |          |          |
| Capital Leases Incurred                              | \$ 691          | \$ 363   | \$ 553   |

(The accompanying Notes are an integral part of these financial statements.)

## CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

(000's except number of shares)

|   | Common<br>Shares | Deferred Stock<br>Option Plan | Retained<br>Earnings | Total     |
|---|------------------|-------------------------------|----------------------|-----------|
| <b>Balance at January 1, 1999</b>                                     | \$ 38,407        | \$ 543                        | \$ 36,401            | \$ 75,351 |
| Net Income for 1999   |                  |                               | 8,438                | 8,438     |
| Dividends on Preferred Shares   |                  |                               | (268)                | (268)     |
| Dividends on Common Shares -<br>at an Annual Rate of \$1.38 per Share |                  |                               | (6,442)              | (6,442)   |
| Stock Option Plan   |                  | 116                           |                      | 116       |
| Exercised Stock Options - 109,753 Shares                              | 2,543            | (1,739)                       |                      | 804       |
| Issuance of 27,619 Common Shares (a)                                  | 676              |                               |                      | 676       |
| Effect of Termination of Stock Option Plan                            | (1,274)          | 1,274                         |                      | ---       |

|   |                  |               |                  |                  |
|---|------------------|---------------|------------------|------------------|
| <b>Balance at December 31, 1999</b>                                   | 40,352           | 194           | 38,129           | <b>78,675</b>    |
| Net Income for 2000   |                  |               | 7,216            | <b>7,216</b>     |
| Dividends on Preferred Shares   |                  |               | (263)            | <b>(263)</b>     |
| Dividends on Common Shares -<br>at an Annual Rate of \$1.38 per Share |                  |               | (6,514)          | <b>(6,514)</b>   |
| Stock Option Plan   |                  | 182           |                  | <b>182</b>       |
| Issuance of 22,916 Common Shares (a)                                  | 639              |               |                  | <b>639</b>       |
| <b>Balance at December 31, 2000</b>                                   | 40,991           | 376           | 38,568           | <b>79,935</b>    |
| Net Income for 2001   |                  |               | 1,090            | <b>1,090</b>     |
| Dividends on Preferred Shares   |                  |               | (257)            | <b>(257)</b>     |
| Dividends on Common Shares -<br>at an Annual Rate of \$1.38 per Share |                  |               | (6,544)          | <b>(6,544)</b>   |
| Stock Option Plan   |                  | 293           |                  | <b>293</b>       |
| Issuance of 11,279 Common Shares (a)                                  | 287              |               |                  | <b>287</b>       |
| Re-acquired and Retired Stock (b)                                     | (58)             |               |                  | <b>(58)</b>      |
| <b>Balance at December 31, 2001</b>                                   | <b>\$ 41,220</b> | <b>\$ 669</b> | <b>\$ 32,857</b> | <b>\$ 74,746</b> |

- (a) Shares sold and issued in connection with the Company's Dividend Reinvestment and Stock Purchase Plan and Employee 401(k) Tax Deferred Savings and Investment Plan (See Note 4).  
(b) Shares repurchased in conjunction with the Company's interim stock repurchase program (See Note 4).

(The accompanying Notes are an integral part of these financial statements.)

## Note 1: Summary of Significant Accounting Policies

**Nature of Operations** - Unitil Corporation (Unitil or the Company) is registered with the Securities and Exchange Commission (SEC) as a public utility holding company under the Public Utility Holding Company Act of 1935. The following companies are wholly-owned subsidiaries of Unitil: Concord Electric Company (CECO), Exeter & Hampton Electric Company (E&H), Fitchburg Gas and Electric Light Company (FG&E), Unitil Power Corp. (UPC), Unitil Realty Corp. (URC), Unitil Service Corp. (USC), and its non-regulated business unit Unitil Resources, Inc. (URI). Usource, Inc. and Usource L.L.C. (collectively, Usource) are subsidiaries of Unitil Resources, Inc.

Unitil's principal business is the retail sale and distribution of electricity in New Hampshire and the retail sale and distribution of electricity and gas in Massachusetts through its retail distribution subsidiaries, CECO, E&H, and FG&E. The Company's wholesale electric power subsidiary, UPC, principally provides all the electric power supply requirements to CECO and E&H for resale at retail. URI conducts an energy brokering business, as well as related energy consulting and marketing activities through its wholly owned subsidiary, Usource. Finally, URC and USC provide centralized facilities and operations and management services to support the Unitil system of companies.

With respect to rates and other business and financial matters, CECO and E&H are subject to regulation by the New Hampshire Public Utilities Commission (NHPUC), FG&E is regulated by the Massachusetts Department of Telecommunications & Energy (MDTE), and UPC, CECO, E&H, and FG&E are regulated by the Federal Energy Regulatory Commission (FERC).

### Basis of Presentation

**Principles of Consolidation** - The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

**Regulatory Accounting** - Generally Accepted Accounting Principles for regulated entities in the United States allow the Company to give accounting recognition to the actions of regulatory authorities in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." In accordance with SFAS No. 71, the Company has deferred recognition of costs (a regulatory asset) or has recognized obligations (a regulatory liability) if it is probable that such costs will be recovered or obligations relieved in the future through the ratemaking process. In addition to the Regulatory Assets and Liabilities separately identified on the Consolidated Balance Sheet, there are other Regulatory Assets and liabilities, such as conservation and load management costs and certain deferred tax liabilities. The Company also has obligations under long-term power contracts, the recovery of which is subject to regulation. If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs are not recoverable in the portion of the business that continues to meet the criteria for application of SFAS No. 71.

Massachusetts and New Hampshire have both passed utility industry restructuring legislation and the Company has filed and implemented its restructuring plan in Massachusetts. In Massachusetts, the Company is allowed to recover previously deferred costs through ongoing assessments to be included in future regulated service rates. For example, the Company divested of all of its generation assets and power contracts and discontinued applying SFAS No. 71 to the generation portion of its assets and operations in Massachusetts. However, based on the recovery mechanism that allows recovery of all of its stranded costs, as finally determined through its electric distribution service rates, the Company has recorded a regulatory asset that it expects to fully recover in future periods. The Company expects to continue to meet the criteria for the application of SFAS No. 71 for the remaining portion of its assets and operations for the foreseeable future. If a change in accounting were to occur

to the non-generation portion of the Company's operations, it could have a material adverse effect on the Company's earnings and retained earnings in that year and could have a material adverse effect on the Company's ongoing financial condition as well.

| <b>Regulatory Assets consist of the following (000's)</b> | <b>Asset Balances at December 31,</b> |                   |
|---|---------------------------------------|-------------------|
|   | <b>2001</b>                           | <b>2000</b>       |
| Power Supply Buyout Obligations                           | \$ 88,779                             | \$ 97,342         |
| Income Taxes  | 27,386                                | 24,651            |
| Recoverable Deferred Charges                              | 17,301                                | 15,633            |
| Recoverable Generation-related Assets                     | 15,330                                | 18,138            |
| Other   | 876                                   | 999               |
| <b>Total Regulatory Assets</b>                            | <b>\$ 149,672</b>                     | <b>\$ 156,763</b> |

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

**Revenue Recognition** - The Company's operating subsidiaries record electric and gas operating revenues based upon the amount of electricity and gas delivered to customers through the end of the accounting period. Usource L.L.C. records energy brokering revenues based upon the amount of electricity and gas delivered to customers through the end of the accounting period.

**Other Property and Investments** - At December 31, 2001, Other Property and Investments includes the Company's investment in the Convertible Preferred Stock of Enermetrix, Inc., a closely held, privately owned, energy technology startup enterprise. The Company's policy is to carry the investment at cost, unless the decline in value is determined by management to be other than temporary. Although the market value of the investment in Enermetrix stock is not readily determinable, management believes the carrying cost of this investment represents its fair value (see Note 3).

**Utility Plant** - The cost of additions to Utility Plant and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The costs of current repairs and minor replacements are charged to appropriate operating expense accounts. The original cost of utility plant retired or otherwise disposed of and the cost of removal, less salvage, are charged to the accumulated provision for depreciation.

**Depreciation and Amortization** - Depreciation provisions for the Company's utility operating subsidiaries are determined on a group straight-line basis. Provisions for depreciation were equivalent to the following composite rates, based on the average depreciable property balances at the beginning and end of each year: 2001 - 3.75 percent; 2000 - 3.74 percent; and 1999 - 3.72 percent.

Amortization provisions include the recovery of a portion of FG&E's former investment in the Seabrook Nuclear Power Plant in rates to its customers through a Seabrook Amortization Surcharge as ordered by the MDTE. In addition, FG&E is amortizing the balance of its unrecovered electric generating related assets, which are recorded as Regulatory Assets, in accordance with its electric restructuring plan approved by the MDTE (See Note 14).

**Federal Income Taxes** - Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured by applying tax rates applicable to the taxable years in which those differences are expected to reverse. The Tax Reduction Act of 1986 eliminated investment tax credits. Investment tax credits generated prior to 1986 are being amortized, for financial reporting purposes, over the productive lives of the related assets.

**Newly Issued Pronouncements** - In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires certain accounting and reporting standards for derivative financial instruments and hedging activities. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133", which amends SFAS No. 133 to be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. The Statement became effective for the Company on January 1, 2001. The Company does not currently hold any derivative instruments and does not engage in hedging activities. As a result, the adoption of these statements did not have any impact on the Company's financial position or results of operations.

On June 29, 2001, the FASB approved for issuance SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". Major provisions of these statements are as follows: all business combinations initiated after June 30, 2001, must use the purchase method of accounting; the pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001; intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability; goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment annually using a fair value approach, except in certain circumstances, and whenever there is an impairment indicator; other intangible assets will continue to be valued and amortized over their estimated lives; in-process research and development will continue to be written off immediately; all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting; effective January 1, 2002, existing goodwill will no longer be subject to amortization. Goodwill acquired subsequent to June 30, 2001, will not be subject to amortization. SFAS No. 142 is effective beginning in the first quarter of 2002, with the exception of goodwill and intangible assets acquired after June 30, 2001, which will be subject immediately to the non-amortization and amortization processes. The Company has no goodwill recorded at December 31, 2001. As a result, the adoption of these statements did not have any impact on the Company's financial position or results of operations.

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which establishes new accounting and reporting standards for legal obligations associated with retiring tangible long-lived assets. The fair value of a liability for an asset retirement obligation must be recorded in the period in which it is incurred, with the cost capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Changes in the liability resulting from the passage of time will be recognized as operating expenses. SFAS No.143 must be adopted by 2003. The Company currently accounts for all of the costs of its long lived-assets, including the cost of removal to replace these assets, in accordance with Generally Accepted Accounting Principles and guidelines published by the Federal Energy Regulatory Commission for Utility plant accounting. The Company has no ownership interest in nuclear power plants, and no decommissioning obligations. The Company has determined that the adoption of this statement will not have a material adverse impact on the Company's financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and

reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 retains the requirements of SFAS No. 121 whereby an impairment loss should be recognized if the carrying value of the asset is not recoverable from its undiscounted cash flows and develops one accounting model for long-lived assets that are to be disposed of by sales. SFAS No. 144 eliminates goodwill from its scope; therefore it does not require goodwill to be allocated to long-lived assets. SFAS No. 144 broadens the scope of APB 30 provisions for the presentation of the discontinued operations to include a component of an entity (rather than a segment of a business). The statement is effective for fiscal years beginning after December 15, 2001, with early adoption permitted. The Company has determined that the adoption of this statement will not have a material adverse impact on the Company's financial position or results of operations.

**Reclassifications** - Certain amounts previously reported have been reclassified to conform to current year presentation.

## **Note 2: Extraordinary Item**

In November 1997, the Massachusetts Legislature enacted landmark electric industry restructuring legislation (the Restructuring Act). The Restructuring Act required all electric utilities to file a restructuring plan with the Massachusetts Department of Telecommunications and Energy (MDTE) by December 31, 1997. The filing of its Restructuring Plan (the Plan) by Unitil's Massachusetts operating subsidiary, FG&E, marked an unprecedented turning point in FG&E's 150-year history. Among other things, the Restructuring Act required all Massachusetts electric utilities to sell all of their electric generation assets and to restructure their utility operations to provide direct retail access to their customers by all qualified generation suppliers.

The MDTE conditionally approved FG&E's Plan in February 1998, and started an investigation and evidentiary hearings into FG&E's proposed recovery of Regulatory Assets related to stranded generation asset costs and expenses related to the formulation and implementation of its Plan. In January 1999, the MDTE approved FG&E's Plan, which included provisions for the recovery of stranded costs through a transition charge in the Company's electric rates. In September 1999, FG&E filed its first annual reconciliation of stranded generation asset costs and expenses and associated transition charge revenues and the MDTE initiated a lengthy investigation and hearing process.

On October 18, 2001 and October 19, 2001, the MDTE issued a series of regulatory Orders in several pending cases involving FG&E, including a final Order on FG&E's initial reconciliation filing. Those Orders included the review and disposition of issues related to the Company's recovery of transition costs due to the restructuring of the electric industry in Massachusetts, as well as certain costs associated with gas industry restructuring and preparation and litigation of performance based rate proceedings initiated by the MDTE. The Orders determined the final treatment of Regulatory Assets that FG&E had sought to recover from its Massachusetts electric customers over a multi-year transition period that began in 1998. FG&E has now determined that it is authorized to recover approximately \$150 million of Regulatory Assets attributable to stranded generation assets, purchased power costs and related expenses.

As a result of the industry restructuring-related Orders, FG&E recorded a non-cash adjustment to Regulatory Assets of \$5.3 million, which resulted in the recognition of an extraordinary charge of \$3.9 million, net of taxes. The Company recognized the extraordinary charge of \$0.83 per share, as of September 30, 2001.

As a result of all of these orders, the Company has been allowed recovery of its Massachusetts industry restructuring transition costs, estimated at \$150 million, including the above-market or stranded generation and power supply related costs via a non-bypassable uniform transition charge. FG&E has been and will continue to be subject to annual MDTE investigation and review in order to reconcile the costs and revenues associated with the collection of transition charges from its customers over the next eight to ten years.

## **Note 3: Investment Write-down**

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" addresses the accounting and reporting for investments in equity securities and requires companies to determine whether a decline in the fair value of the investment in equity securities is other than temporary.

The Company had invested \$5.5 million in Enermetrix, Inc. (Enermetrix), an energy technology startup enterprise, over the past several years. In accordance with SFAS No. 115, the Company recorded a non-cash charge of \$3.7 million, or \$2.4 million, net of tax, in the fourth quarter to recognize the decrease in fair value of its non-utility investment in Enermetrix. The Company has recorded a tax benefit of \$1.3 million for this capital loss that it expects to realize in 2002. The Company recognized this valuation adjustment in 2001 to reflect significantly lower private equity valuation metrics for companies like Enermetrix and changes in the business outlook of Enermetrix. Enermetrix is a closely held, privately owned company and, as such, has no published market value and Unitil is a non-controlling, minority investor in Enermetrix. Among the contributing factors to management's decision for the reduction in fair value were the general economic downturn in the technology sector, the slower development of competitive markets for energy supply and generally lower market valuations for companies like Enermetrix.

The Company's management considered various sources of information in determining its estimate of the fair value of its Enermetrix investment at December 31, 2001, including previous valuations of Enermetrix performed by independent investment banking firms and the Enermetrix operating forecast. Where those valuations were based upon the value of comparable companies who are publicly traded and the operating forecast of Enermetrix, those statistics were updated and analyzed.

The Company has valued its investment in Enermetrix at December 31, 2001, at \$1.8 million. Future market value risk is inherent in this investment in Enermetrix, which is an energy technology start-up enterprise. The Company will continue to monitor the value of its investment and periodically assess the impact, if any, on future period reported earnings.

## **Note 4: Common Stock**

**New Shares Issued** - During 2001, the Company raised \$287,000 of additional common equity capital through the issuance of 11,279 shares of Common Stock in connection with the Dividend Reinvestment and Stock Purchase Plan. The Dividend Reinvestment and Stock Purchase Plan provides participants in the plan a method for investing cash dividends on the Company's Common Stock and cash payments in additional shares of the Company's Common Stock. In 2000, the Company raised \$639,000 of additional common equity capital through the issuance of 22,916

shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan and the Employee 401(k) Tax Deferred Savings and Investment Plan. The Employee 401(k) Tax Deferred Savings and Investment Plan is described in Note 11.

**Shares Repurchased, Cancelled and Retired** - In conjunction with the Securities and Exchange Commission's (SEC) Emergency Orders of September 14 and 21, 2001, which suspended the applicability of certain of the conditions contained in its Rule 10b-18, the Company implemented an interim Common Stock repurchase program. Under this program, the Company used its cash on hand to repurchase, cancel and retire 2,500 of its outstanding Common shares at a total cost of \$58,200. The SEC has since lifted its suspension of the aforementioned conditions and, accordingly, the Company's interim Common Stock repurchase program is no longer in effect.

**Stock-Based Compensation Plans** - The Company maintains two stock option plans, which provide for the granting of options to key employees, as follows:

**Unitil Corporation Key Employee Stock Option Plan** - The "Unitil Corporation Key Employee Stock Option Plan" was a 10-year plan which began in March 1989. The number of shares granted under this plan, as well as the terms and conditions of each grant, were determined by the Board of Directors, subject to plan limitations. All options granted under this plan vested upon grant. The 10-year period in which options could be granted under this plan expired in March 1999. The expiration date of the remaining outstanding options is November 3, 2007. The plan provides dividend equivalents on options granted, which are recorded at fair value as compensation expense. The total compensation expenses recorded by the Company with respect to this plan were \$41,000, \$39,000 and \$74,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

Share Option Activity of the "Unitil Corporation Key Employee Stock Option Plan" is presented in the following table:

|   | 2001                   | 2000            | 1999            |
|---|------------------------|-----------------|-----------------|
| Beginning Options Outstanding and Exercisable | 29,358                 | 27,976          | 134,741         |
| Dividend Equivalents Earned                   | 1,638                  | 1,382           | 2,988           |
| Options Exercised                             | ----                   | ----            | (109,753)       |
| Ending Options Outstanding and Exercisable    | <u>30,996</u>          | <u>29,358</u>   | <u>27,976</u>   |
| Range of Option Exercise Price per Share      | <b>\$12.11-\$18.28</b> | \$12.11-\$18.28 | \$12.11-\$18.28 |
| Weighted Average Remaining Contractual Life   | <b>5.9</b>             | 6.9             | 7.9             |

**Unitil Corporation 1998 Stock Option Plan** - The "Unitil Corporation 1998 Stock Option Plan" became effective on December 11, 1998. The number of shares granted under this plan, as well as the terms and conditions of each grant, are determined by the Board of Directors, subject to plan limitations. All options granted under this plan vest over a three-year period from the date of the grant, with 25% vesting on the first anniversary of the grant, 25% vesting on the second anniversary, and 50% vesting on the third anniversary. Under the terms of this plan, key employees may be granted options to purchase the Company's Common Stock at no less than 100% of the market price on the date the option is granted. All options must be exercised no later than 10 years after the date on which they were granted. The total compensation expenses recorded by the Company with respect to this plan were \$251,000, \$144,000, and \$42,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

|   | 2001             |                        | 2000             |                        | 1999             |                        |
|---|------------------|------------------------|------------------|------------------------|------------------|------------------------|
|   | Number of Shares | Average Exercise Price | Number of Shares | Average Exercise Price | Number of Shares | Average Exercise Price |
| Beginning Options Outstanding               | 113,500          | \$ 27.64               | 62,000           | \$ 23.38               | ----             | ----                   |
| Options Granted                             | 60,000           | \$ 25.88               | 55,000           | \$ 32.18               | 62,000           | \$ 23.38               |
| Options Forfeited                           | (1,000)          | \$ 33.56               | (3,500)          | \$ 23.38               | ----             | ----                   |
| Ending Options Outstanding                  | <u>172,500</u>   | <u>\$ 26.99</u>        | <u>113,500</u>   | <u>\$ 27.64</u>        | <u>62,000</u>    | <u>\$ 23.38</u>        |
| Options Vested and Exercisable- end of year | 42,750           | \$ 26.15               |                  |                        |                  |                        |

The Company has adopted SFAS No. 123, "Accounting for Stock Based Compensation," and recognizes compensation costs at fair value at the date of grant.

The following summarizes certain data for options outstanding at December 31, 2001:

| Range of Exercise Prices | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life |
|--------------------------|------------------|---------------------------------|---|
| \$ 20.00 to \$24.99      | 58,500           | \$ 23.38                        | 7.2   |
| \$ 25.00 to \$29.99      | 60,000           | \$ 25.88                        | 9.1   |
| \$ 30.00 to \$34.99      | <u>54,000</u>    | <u>\$ 32.15</u>                 | <u>8.1</u>                                  |
|                          | <u>172,500</u>   |                                 |   |

The weighted average fair value per share of options granted during 2001, 2000 and 1999 was \$4.66, \$7.13 and \$3.25, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes model with the following weighted average assumptions:

|                       | 2001  | 2000  | 1999  |
|-----------------------|-------|-------|-------|
| Expected Life (Years) | 10.0  | 10.0  | 10.0  |
| Interest Rate         | 5.8%  | 6.0%  | 6.0%  |
| Volatility            | 23.6% | 22.3% | 19.9% |
| Dividend Yield        | 5.3%  | 4.3%  | 5.9%  |

**Restrictions on Retained Earnings** - Unitil Corporation has no restriction on the payment of common dividends from retained earnings. Its three retail distribution subsidiaries do have restrictions. Under the terms of the First Mortgage Bond Indentures, CECo and E&H had \$5,366,000 and \$4,823,000, respectively, available for the payment of cash dividends on their Common Stock at December 31, 2001. Under the terms of long-term debt purchase agreements, FG&E had \$6,828,000 of retained earnings available for the payment of cash dividends on its Common Stock at December 31, 2001.

## Note 5: Preferred Stock

Certain of the Unitil subsidiaries have redeemable Cumulative Preferred Stock outstanding and one subsidiary, CECo, has a Non-Redeemable, Non-Cumulative Preferred Stock issue outstanding. All such subsidiaries are required to offer to redeem annually a given number of shares of each series of Redeemable Cumulative Preferred Stock and to purchase such shares that shall have been tendered by holders of the respective stock. All such subsidiaries may redeem, at their option, the Redeemable Cumulative Preferred Stock at a given redemption price, plus accrued dividends.

The aggregate purchases of Redeemable Cumulative Preferred Stock during 2001, 2000 and 1999 were \$81,000, \$67,500, and \$86,300, respectively. The aggregate amount of sinking fund requirements of the Redeemable Cumulative Preferred Stock for each of the five years following 2001 are \$206,000 per year.

## Note 6: Long-Term Debt and Interest Expense

Substantially all the property and franchises of the Company's utility operating subsidiaries are subject to liens of indenture under which First Mortgage bonds have been issued. Certain of the Company's long-term debt agreements contain provisions, which, among other things, limit the incursion of additional long-term debt.

Total aggregate amount of sinking fund payments relating to bond issues and normal scheduled long-term debt repayments amounted to \$3,208,000, \$1,255,000, and \$1,065,000 in 2001, 2000, and 1999, respectively.

The aggregate amount of bond sinking fund requirements and normal scheduled long-term debt repayments for each of the five years following 2001 is: 2002 - \$3,224,000; 2003 - \$3,244,000; 2004 - \$3,264,000; 2005 - \$286,000; and 2006 - \$310,000.

On May 1, 2001, CECo sold \$7,500,000 of long-term notes at par to institutional investors, bearing an interest rate of 8.00%. Proceeds were used to repay short-term indebtedness, with the balance of the proceeds being used to cover the cost of the financing and to finance further capital expenditures.

On May 1, 2001, E&H sold \$7,500,000 of long-term notes at par to institutional investors, bearing an interest rate of 8.00%. Proceeds were used to repay short-term indebtedness, with the balance of the proceeds being used to cover the cost of the financing.

On June 8, 2001, FG&E sold \$14,000,000 of long-term notes at par to institutional investors, bearing an interest rate of 7.98%. Proceeds were used to repay short-term indebtedness, incurred to fund FG&E's ongoing construction program.

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities. In management's opinion, the carrying value of the debt approximated its fair value at December 31, 2001 and 2000.

**Interest Expense, net** - Interest expense is presented in the Financial Statements, net of Interest Income. In 2001, Interest Expense, net reflects higher interest expense, offset by an increase in accrued interest income associated with deferred rate recovery mechanisms for Regulatory Assets. Total interest expense was \$9.1 million, \$8.6 million and \$7.6 million in 2001, 2000 and 1999, respectively, due to higher debt outstanding in those years. Interest income was \$2.3 million, \$1.8 million and \$0.7 million in 2001, 2000 and 1999, respectively, reflecting increased deferred restructuring-related costs.

## Note 7: Credit Arrangements

At December 31, 2001, the Company had unsecured bank lines for short-term debt aggregating \$30,000,000 with three banks for which it pays fees. At December 31, 2001, the unused portion of the credit lines outstanding was \$16,200,000. The average interest rates on all short-term borrowings were 4.78% and 6.57% during 2001 and 2000, respectively.

## Note 8: Leases

The Company's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their machinery and office equipment. FG&E has a facility lease for 22 years which began in February 1981. The lease allows five, five-year renewal periods at the option of FG&E. In

addition, Unital's subsidiaries lease some equipment under operating leases.

The following is a schedule of the leased property under capital leases by major classes:

| <b>Classes of Utility Plant (000's)</b> | Asset Balances at December 31, |          |
|---|--------------------------------|----------|
|   | 2001                           | 2000     |
| Common Plant                            | \$ 7,146                       | \$ 6,814 |
| Less: Accumulated Depreciation          | 3,213                          | 2,620    |
| Net Plant                               | \$ 3,933                       | \$ 4,194 |

The following is a schedule by years of future minimum lease payments and present value of net minimum lease payments under capital leases, as of December 31, 2001:

| <b>Year Ending December 31, (000's)</b>     |          |
|---|----------|
| 2002  | \$ 1,404 |
| 2003  | 1,001    |
| 2004  | 721      |
| 2005  | 495      |
| 2006  | 307      |
| 2007 - 2011                                 | 1,352    |
| Total Minimum Lease Payments                | \$ 5,280 |
| Less: Amount Representing Interest          | 1,347    |
| Present Value of Net Minimum Lease Payments | \$ 3,933 |

Total rental expense charged to operations for the years ended December 31, 2001, 2000 and 1999 amounted to \$12,000, \$21,000, and \$103,000, respectively. There are no material future operating lease payment obligations at December 31, 2001.

## Note 9: Income Taxes

Federal Income Taxes were provided for the following items for the years ended December 31, 2001, 2000 and 1999, respectively:

|   | 2001            | 2000            | 1999            |
|---|-----------------|-----------------|-----------------|
| <b>Current Federal Tax Provision (000's):</b> |                 |                 |                 |
| Operating Income                              | \$ 3,566        | \$ (9)          | \$ 3,492        |
| Amortization of Investment Tax Credits        | (153)           | (256)           | (322)           |
| Total Current Federal Tax Provision           | 3,413           | (265)           | 3,170           |
| <b>Deferred Federal Tax Provision (000's)</b> |                 |                 |                 |
| Accelerated Depreciation                      | (401)           | 183             | 132             |
| Abandoned Property                            | (767)           | (863)           | (794)           |
| Accrued Revenue                               | 691             | 3,604           | 1,624           |
| Allowance for Funds Used During Construction  | (42)            | (48)            | (53)            |
| Post Retirement Benefits Other Than Pensions  | (34)            | (29)            | (27)            |
| Deferred Pensions                             | 89              | 275             | 159             |
| Utility Industry Restructuring Costs          | 37              | (186)           | 273             |
| Deferred Gain on Sale of New Haven Harbor     | ----            | 125             | (1,437)         |
| Other   | (136)           | 5               | 188             |
| Total Deferred Federal Tax Provision          | (563)           | 3,066           | 65              |
| <b>Total Federal Tax Provision</b>            | <b>\$ 2,850</b> | <b>\$ 2,801</b> | <b>\$ 3,235</b> |

The components of the Federal and State income tax provisions reflected as operating expenses in the accompanying consolidated statements of earnings for the years ended December 31, 2001, 2000 and 1999 were as follows:

| <b>Federal and State Tax Provisions (000's)</b> | 2001     | 2000   | 1999     |
|---|----------|--------|----------|
| <b>Federal</b>                                  |          |        |          |
| Current   | \$ 3,566 | \$ (9) | \$ 3,492 |
| Deferred  | (563)    | 3,066  | 65       |
| Amortization of Investment Tax Credits          | (153)    | (256)  | (322)    |

|  |                 |                 |                 |
|--|-----------------|-----------------|-----------------|
| Total Federal Tax Provision                                | 2,850           | 2,801           | 3,235           |
| <b>State</b>   |                 |                 |                 |
| Current  | 615             | 155             | 805             |
| Deferred   | (44)            | 457             | 7               |
| Total State Tax Provision                                  | 571             | 612             | 812             |
| <b>Federal and State Income Taxes - Operating Expenses</b> | <b>\$ 3,421</b> | <b>\$ 3,413</b> | <b>\$ 4,047</b> |

In 2001, the Company provided deferred tax benefit of \$1.3 million on the capital loss from the write-down of its investment in Enermetrix. The Company expects to realize the benefit of this capital loss as an offset to capital gains in its tax return in 2002. Also in 2001, the Company recorded a deferred tax benefit of \$1.4 million as adjustments to deferred taxes recognized when the Company recorded the extraordinary item in the third quarter.

The differences between the Company's provisions for Federal Income Taxes and the provisions calculated at the statutory federal tax rate, expressed in percentages, are shown below:

|  | 2001       | 2000       | 1999       |
|--|------------|------------|------------|
| Statutory Federal Income Tax Rate        | 34%        | 34%        | 34%        |
| Income Tax Effects of:                   |            |            |            |
| Investment Tax Credits                   | (1)        | (2)        | (2)        |
| Abandoned Property                       | (6)        | (6)        | (7)        |
| Other, Net                               | 1          | 2          | 3          |
| <b>Effective Federal Income Tax Rate</b> | <b>28%</b> | <b>28%</b> | <b>28%</b> |

Temporary differences which gave rise to deferred tax assets and liabilities are shown below:

| <b>Deferred Income Taxes (000's)</b> | <b>2001</b>      | <b>2000</b>      |
|--------------------------------------|------------------|------------------|
| Accelerated Depreciation             | \$ 24,020        | \$ 24,519        |
| Abandoned Property                   | 4,845            | 6,786            |
| Contributions in Aid of Construction | (3,360)          | (3,050)          |
| Percentage Repair Allowance          | 2,165            | 1,956            |
| Retirement Loss                      | 3,177            | 2,820            |
| Employee Benefit Plans               | 3,551            | 3,131            |
| Unamortized FAS109 Adjustments       | 5,563            | 3,129            |
| Deferred Charges                     | 5,954            | 7,136            |
| Gain on Sale of New Haven Harbor     | ----             | (1,562)          |
| Other                                | 1,198            | 994              |
| <b>Total Deferred Income Tax</b>     | <b>\$ 47,113</b> | <b>\$ 45,859</b> |

Due to a change in New Hampshire State tax regulations and in accordance with SFAS No. 109, "Accounting for Income Taxes," the Company recorded an adjustment to Deferred Income Taxes and an offsetting adjustment to Regulatory Assets of \$6.1 million during the year.

## Note 10: Energy Supply

### Massachusetts:

**Joint Owned Units** - FG&E is participating, on a tenancy-in-common basis, with other New England utilities, in the ownership of one generating unit. Wyman Unit No. 4 is an oil-fired station that has been in commercial operation since December 1978. FG&E's 0.217% interest in Millstone (Millstone 3), a nuclear generating unit that has been in commercial operation since April 1986, was sold to Dominion Resources, Inc. effective April 1, 2001. FG&E completed the sale of its principal generating asset, a 4.5% interest in New Haven Harbor Station, in March 1999. Kilowatt-hour generation and operating expenses of the joint ownership unit is divided on the same basis as ownership. FG&E's proportionate costs are reflected in the Consolidated Statements of Earnings. Information with respect to FG&E's ownership in Wyman Unit No. 4, at December 31, 2001, is shown below:

| Joint Ownership Unit | State | Proportionate<br>Ownership % | Share of<br>Total MW | Company's<br>Net Book<br>Value (000's) |
|----------------------|-------|------------------------------|----------------------|--|
| Wyman Unit No. 4     | ME    | 0.1822                       | 1.13                 | \$ 81                                  |

**Purchased Power and Gas Supply Contracts** - FG&E has commitments under long-term contracts for the purchase of electricity and gas from various suppliers. Generally, these contracts are for fixed periods and require payment of demand and energy charges. Total costs under these contracts are included in Fuel and Purchased Power and Gas Purchased for Resale in the Consolidated Statements of Earnings. These costs are recoverable in revenues under various cost recovery mechanisms. In accordance with Massachusetts Electric Restructuring Law, and pursuant to the power supply divestiture discussed below, FG&E began selling the output from its power supply contracts on February 1, 2000. Information with respect to FG&E's electric purchased power contracts at December 31, 2001 is shown below:

| Unit Fuel Type | Energy Entitlements | Contract End Date |
|----------------|---------------------|-------------------|
| Hydro          | 3 MW                | 2012              |
| Wood           | 14MW                | 2012              |

**Power Supply Divestiture** - In January 2000, the MDTE approved FG&E's agreement to sell the output from its remaining electric power generation portfolio to Select Energy, a subsidiary of Northeast Utilities. FG&E initiated its electric restructuring process, including the divestiture and sale of its power supply portfolio, in 1998, in response to the Massachusetts Electric Restructuring Law. Under the Select Energy contract, which went into effect February 1, 2000, FG&E began selling the output from its remaining power contracts and the output of its two joint ownership units to Select Energy. Upon the sale of FG&E's share of Millstone 3, this portion of the contract sale ceased.

Under the Massachusetts Electric Restructuring Law, customers not purchasing electric power from competitive suppliers are eligible either for Standard Offer Service (SOS) or for Default Service. Many of FG&E's customers are currently eligible for SOS service. On March 1, 1999, FG&E entered into a contract with Constellation Power Source to procure power needed to serve the SOS load. The contract will continue through February 28, 2005. The power required to meet Default Service is currently being procured through a six-month contract from Dominion Nuclear Marketing II, Inc. In accordance with MDTE regulations, FG&E will conduct periodic Request for Proposals (RFP) to procure Default Service at market prices. The next RFP will be used to procure Default Service effective June 1, 2002.

FG&E has been allowed recovery of its transition costs, including the above-market or stranded generation and power-supply related costs, via a non-bypassable uniform transition charge. The recoverable transition costs which have been recorded on FG&E's balance sheet as Regulatory Assets, include \$88,779,000 of purchased power contracts and \$15,330,000 of recoverable generation-related assets.

As a result of the Order by the MDTE related to Electric Industry Restructuring in Massachusetts (See Note 14), the Company is required to discontinue the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," to the generation and power supply portion of FG&E's business. FG&E's electric distribution business and gas supply and distribution business, as well as the power supply and distribution business of CECO, E&H, and UPC, will continue to apply SFAS No. 71.

#### New Hampshire:

**Purchased Power Contracts** - UPC has commitments under long-term contracts for the purchase of electricity from various suppliers. These wholesale contracts are generally for fixed periods and require payment of demand and energy charges. The total costs under these contracts are included in Fuel and Purchased Power in the Consolidated Statements of Earnings and are normally recoverable in revenues under various cost recovery mechanisms.

The status of UPC's electric purchased power contracts at December 31, 2001, is as shown below:

| Unit Fuel Type | 2001 Energy MW Winter Entitlements | Purchased (MWH's) | Contract End Date | Est. Annual Minimum Payments Which Cover Future Debt Service Requirements (000's) |
|----------------|------------------------------------|-------------------|-------------------|---|
| Gas            | 25                                 | 121,780           | 2010              |   |
| Oil/Gas        | 2                                  | 3,300             | 2003              |   |
| Oil/Gas        | 16                                 | 63,726            | 2006              |   |
| Oil            | 10                                 | 24,592            | 2005              |   |
| Oil            | 10                                 | 11,288            | 2008              |   |
| Coal           | 14                                 | 93,558            | 2005              |   |
| Nuclear        | 5                                  | 39,088            | 2005              |   |
| Nuclear        | 10                                 | 75,591            | 2010              |   |
| Nuclear        | 2                                  | 9,859             | 2013              |   |
| Refuse         | 6                                  | 43,493            | 2003              |   |
| System         | 18                                 | 42,350            | 2002              |   |
| System         | 30                                 | 123,635           | Variable          |   |
| Various        | 100                                | 382,217           | Short-term        |   |
| Coal/Gas       | N/A                                | N/A               | 2009              | (1)   |
| Gas            | N/A                                | N/A               | 2008              | (1)   |
| Transmission   | N/A                                | N/A               | 2020              | \$ 863,000 (2)  |

#### Notes:

1. Represents terminated power supply contracts recovered in Fuel and Purchased Power expense.
2. These payments represent expected annual transmission support payments associated with a 450KV line, which connects New England to Quebec.

On January 25, 2002, UPC, along with CECO and E&H, filed a comprehensive electric restructuring proposal under which the above long-term contracts would be sold and/or assigned through a competitive auction process to a third party and the remaining financial obligations recovered in

their entirety through a retail stranded cost charge.

## Note 11: Benefit Plans

**Pension Plans** - The Company has a defined benefit pension plan covering substantially all its employees. The retirement benefits are based upon the employee's level of compensation and length of service. The Company records annual expense and accounts for its pension plan in accordance with SFAS No. 87, "Employers' Accounting for Pensions."

The following table provides the components of net periodic expense (income) for the plan for years 2001, 2000 and 1999:

| Net Periodic Expense (Income) (000's)                           | 2001      | 2000      | 1999      |
|---|-----------|-----------|-----------|
| Service Cost  | \$ 914    | \$ 850    | \$ 935    |
| Interest Cost   | 2,639     | 2,552     | 2,395     |
| Expected Return on Plan Assets                                  | (4,439)   | (4,356)   | (4,044)   |
| Amortization of Transition Obligation                           | 84        | 85        | 85        |
| Amortization of Prior-Service Cost                              | 96        | 98        | 101       |
| Recognized Net Actuarial (Gain)                                 | (10)      | (105)     | ---       |
| Net Periodic Benefit Income                                     | \$ (716)  | \$ (876)  | \$ (528)  |
| <b>Reconciliation of Projected Benefit Obligations (000's):</b> |           |           |           |
| Beginning of Year   | \$ 35,348 | \$ 33,371 | \$ 36,621 |
| Service Cost  | 914       | 850       | 935       |
| Interest Cost   | 2,639     | 2,552     | 2,395     |
| Amendments  | ---       | (80)      | ---       |
| Actuarial (Gain) Loss   | 2,173     | 749       | (4,601)   |
| Benefit Payments  | (2,152)   | (2,094)   | (1,979)   |
| End of Year   | \$ 38,922 | \$ 35,348 | \$ 33,371 |
| <b>Reconciliation of Fair Value of Plan Assets (000's):</b>     |           |           |           |
| Beginning of Year   | \$ 45,422 | \$ 45,783 | \$ 48,627 |
| Actual Return of Plan Assets                                    | (2,327)   | 1,733     | (865)     |
| Benefit Payments  | (2,152)   | (2,094)   | (1,979)   |
| End of Year   | \$ 40,943 | \$ 45,422 | \$ 45,783 |
| <b>Funded Status (000's):</b>                                   |           |           |           |
| Funded Status at December 31                                    | \$ 2,021  | \$ 10,074 | \$ 12,411 |
| Unrecognized Transition Obligation                              | ---       | 84        | 169       |
| Unrecognized Prior-Service Cost                                 | 942       | 1,038     | 1,216     |
| Unrecognized (Gain) Loss  | 7,749     | (1,200)   | (4,677)   |
| Prepaid Pension Cost  | \$ 10,712 | \$ 9,996  | \$ 9,119  |

Plan assets are invested in common stock, short-term investments, and various other fixed income security funds. The weighted-average discount rates used in determining the projected benefit obligation in 2001, 2000, and 1999 were 7.25%, 7.75%, and 7.75%, respectively. The rate of increase in future compensation levels was 4.00% and the expected long-term rate of return on assets was 9.25% in 2001, 2000, and 1999.

Unitil Service Corp. has a Supplemental Executive Retirement Plan (SERP). The SERP is an unfunded retirement plan with participation limited to executives selected by the Board of Directors. The cost associated with the SERP amounted to approximately \$136,000, \$112,000, and \$157,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

**Employee 401(k) Tax Deferred Savings Plan** - The Company sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code, covering substantially all of the Company's employees. Participants may elect to defer current compensation by contributing to the plan. The Company matches contributions, with a maximum matching contribution of 3% of current compensation. Employees may direct, at their sole discretion, the investment of their savings plan balances both the employer and employee portions into a variety of investment options, including a Company Common Stock fund. Participants are 100% vested in contributions made on their behalf, once they have completed three years of service. The Company's share of contributions to the plan were \$446,000, \$425,000, and \$407,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

**Post-Retirement Benefits** - The Company's subsidiaries provide health care benefits to retirees for a 12-month period following their retirement. The Company's subsidiaries continue to provide life insurance coverage to retirees. Life insurance and limited health care post-retirement benefits require the Company to accrue post-retirement benefits during the employee's years of service with the Company and the recognition of the actuarially determined total post-retirement benefit obligation earned by existing retirees. At December 31, 2001, 2000, and 1999, the accumulated post-retirement benefit obligation (transition obligation) was approximately \$235,000, \$257,000, and \$278,000, respectively, and the period cost

associated with these benefits for 2001, 2000, and 1999 was approximately \$107,000, \$90,000, and \$84,000, respectively. This obligation is being recognized on a delayed basis over the average remaining service period of active participants, and such period will not exceed 20 years.

## Note 12: Earnings Per Share

The following table reconciles basic and diluted earnings per share, assuming all outstanding stock options were converted to common shares per Statement of Financial Accounting Standards Number 128, "Earnings per Share."

| (000's except share and per share data)                                 | 2001           | 2000            | 1999            |
|---|----------------|-----------------|-----------------|
| Net Income before Extraordinary Item                                    | \$ 4,770       | \$ 6,953        | \$ 8,170        |
| Extraordinary Item, net of tax  | (3,937)        | ---             | ---             |
| Net Income  | <u>\$ 833</u>  | <u>\$ 6,953</u> | <u>\$ 8,170</u> |
| Weighted Average Common Shares Outstanding - Basic                      | 4,743,576      | 4,723,171       | 4,682,273       |
| Plus: Diluted Effect of Incremental Shares -<br>from Assumed Conversion | 16,246         | 19,574          | 14,776          |
| Weighted Average Common Shares Outstanding - Diluted                    | 4,759,822      | 4,742,745       | 4,697,049       |
| Basic and Diluted Earnings per Share:                                   |                |                 |                 |
| Net Income before Extraordinary Item                                    | \$ 1.01        | \$ 1.47         | \$ 1.74         |
| Extraordinary Item, net of tax  | (0.83)         | ---             | ---             |
| Net Income  | <u>\$ 0.18</u> | <u>\$ 1.47</u>  | <u>\$ 1.74</u>  |

Weighted average options to purchase 114,000 and 55,000 of common stock were outstanding during 2001 and 2000, respectively, but were not included in the computation of weighted average common shares outstanding for purposes of computing diluted earnings per share, because the effect would have been antidilutive.

## Note 13: Segment Information

The Company reported four segments: utility electric operations, utility gas operations, other, and Usource. Utilit is engaged principally in the retail sale and distribution of electricity in New Hampshire and both electric and gas service in Massachusetts through its retail distribution subsidiaries CECO, E&H, and FG&E. The Company's wholesale electric power subsidiary, UPC, provides all the electric power supply requirements to CECO and E&H for resale at retail, and also engages in various other wholesale electric power services with affiliates and non-affiliates throughout the New England Region. URI provides an energy brokering service, through Usource, as well as various energy consulting and marketing activities. URC and USC provide centralized facilities and operations to support the Utilit System.

URC and USC are included in the "Other" column of the table below. USC provides centralized management and administrative services, including information systems management and financial record keeping. URC owns certain real estate, principally the Company's corporate headquarters.

The segments follow the same accounting policies as described in the Summary of Significant Accounting Policies. Intersegment sales take place at cost and the effects of all intersegment and/or intercompany transactions are eliminated in the consolidated financial statements. Segment profit or loss is based on profit or loss from operations after income taxes. Expenses used to determine operating income before taxes are charged directly to each segment or are allocated in accordance with factors contained in cost-of-service studies, which were included in rate applications approved by the NHPUC and MDTE. Assets allocated to each segment are based upon specific identification of such assets provided by Company records.

The following table provides significant segment financial data for the years ended December 31, 2001, 2000 and 1999:

| Year Ended December 31, 2001 (000's)  | Electric   | Gas       | Other   | Usource | Eliminations | Total      |
|---------------------------------------|------------|-----------|---------|---------|--------------|------------|
| Revenues                              |            |           |         |         |              |            |
| External Customers                    | \$ 183,780 | \$ 22,828 | \$ 30   | \$ 384  |              | \$ 207,022 |
| Intersegment                          | ----       | ----      | 20,151  | ----    | (20,151)     | ----       |
| Depreciation and Amortization         | 9,025      | 1,760     | 1,753   | 229     |              | 12,767     |
| Interest, net                         | 4,388      | 1,576     | 801     | 32      |              | 6,797      |
| Income Taxes                          | 4,527      | (457)     | 2       | (651)   |              | 3,421      |
| Segment Profit (Loss) from Operations | 8,771      | (771)     | 172     | (1,002) |              | 7,170      |
| Investment Write-down, net of tax     | ----       | ----      | (2,400) | ----    |              | (2,400)    |
| Extraordinary Item, net of tax        | (3,937)    | ----      | ----    | ----    |              | (3,937)    |
| Identifiable Segment Assets           | 288,013    | 87,851    | 24,008  | 505     | (23,615)     | 376,762    |
| Capital Expenditures                  | 13,986     | 4,817     | 775     | ----    |              | 19,578     |
| Year Ended December 31, 2000 (000's)  |            |           |         |         |              |            |
| Revenues                              |            |           |         |         |              |            |
| External Customers                    | \$ 160,023 | \$ 22,756 | \$ 31   | \$ 131  |              | \$ 182,941 |
| Intersegment                          | ----       | ----      | 17,967  | ----    | (17,967)     | ----       |
| Depreciation and Amortization         | 8,815      | 1,575     | 1,344   | 230     |              | 11,964     |
| Interest, net                         | 4,797      | 1,370     | 629     | 24      |              | 6,820      |
| Income Taxes                          | 4,051      | 199       | 3       | (840)   |              | 3,413      |
| Segment Profit (Loss) from Operations | 7,686      | 600       | 60      | (1,051) |              | 6,985      |

|   |            |           |        |         |          |            |
|---|------------|-----------|--------|---------|----------|------------|
| Segment Profit (Loss) from Operations       | 1,923      | 802       | 22     | (1,054) |          | 6,953      |
| Identifiable Segment Assets                 | 286,437    | 89,917    | 21,444 | 3,629   | (18,460) | 382,967    |
| Capital Expenditures                        | 14,066     | 3,821     | 1,299  | 3,063   |          | 22,249     |
| <b>Year Ended December 31, 1999</b> (000's) |            |           |        |         |          |            |
| <b>Revenues</b>                             |            |           |        |         |          |            |
| External Customers                          | \$ 154,077 | \$ 18,116 | \$ 135 | \$ 45   |          | \$ 172,373 |
| Intersegment                                | ----       | ----      | 19,089 | ----    | (19,089) | ----       |
| Depreciation and Amortization               | 8,362      | 1,458     | 1,492  | 100     |          | 11,412     |
| Interest, net                               | 5,094      | 1,255     | 549    | 21      |          | 6,919      |
| Income Taxes                                | 4,051      | (200)     | 456    | (260)   |          | 4,047      |
| Segment Profit (Loss) from Operations       | 7,830      | 320       | 494    | (474)   |          | 8,170      |
| Identifiable Segment Assets                 | 269,616    | 87,546    | 26,466 | 703     | (20,804) | 363,527    |
| Capital Expenditures                        | 6,905      | 2,266     | 5,373  | 587     |          | 15,131     |

## Note 14: Commitments and Contingencies

### Regulatory Matters -

The Until Companies are regulated by various federal and state agencies, including the Securities and Exchange Commission (SEC), the Federal Energy Regulatory Commission (FERC), and state regulatory authorities with jurisdiction over the utility industry, including the New Hampshire Public Utilities Commission (NHPUC) and the Massachusetts Department of Telecommunications and Energy (MDTE). In recent years, there has been significant legislative and regulatory activity to restructure the utility industry to introduce greater competition in the supply and sale of electricity and gas, while continuing to regulate the distribution operations of Until's utility operating subsidiaries.

Massachusetts enacted the Electric Restructuring Act of 1997 (the Restructuring Act) requiring the comprehensive restructuring of the electric utility industry in the state. Since March 1, 1998, all electric consumers in Massachusetts served by investor-owned utilities have had the ability to choose their electric energy supplier. FG&E, the Company's Massachusetts based combination gas and electric utility, has continued to implement its comprehensive electric Restructuring Plan, and has completed the divestiture of its entire regulated power supply business, including its nuclear investment in Millstone 3.

At the direction of the MDTE, in 1997, FG&E and other Massachusetts gas distribution utilities initiated an industry-wide collaborative process to develop a common set of principles to restructure their gas service and implement the necessary infrastructure to offer gas customers choice of their competitive gas energy supplier. FG&E filed new gas tariffs with the MDTE to implement natural gas unbundling in accordance with the principles resulting from this collaborative effort. The MDTE approved these tariffs and regulations governing the unbundling of gas services effective November 1, 2000.

In New Hampshire, Concord Electric Company (CECo) and Exeter & Hampton Electric Company (E&H), the Company's electric distribution operating subsidiaries, and Until Power Corp. (UPC), the Company's wholesale power supply company, continue to prepare for the transition to a new market structure. As discussed further below, on January 25, 2002, the Companies filed a comprehensive restructuring proposal with the NHPUC to comply with the State's restructuring law and provide retail choice to its customers. Until has also been an active participant in the restructuring of the wholesale power market and transmission system in New England. New wholesale markets have been implemented in the New England Power Pool (NEPOOL) under the general supervision of an Independent System Operator (ISO) and the regulatory oversight of the FERC.

**Massachusetts Electric Operations Restructuring** - On January 15, 1999, the MDTE approved the provisions of FG&E's Electric Restructuring Plan with certain modifications. Under the Restructuring Plan, FG&E must provide its customers with: a) the ability to choose a competitive energy supplier; b) an option to purchase standard offer service or default service provided by FG&E; and c) a cumulative 15% rate reduction adjusted for inflation.

As a result of restructuring and divestiture of FG&E's entire generation and purchased power portfolio, FG&E has accelerated the amortization of its stranded electric generation assets and its abandoned investment in Seabrook Station. FG&E continues to earn an authorized rate of return on the unamortized balance of these Regulatory Assets. In addition, as a result of the rate reduction requirement of the Restructuring Act, FG&E has been authorized to defer the recovery of a portion of its transition costs and standard offer service costs. These unrecovered amounts are also recorded as Regulatory Assets and earn authorized carrying charges until their subsequent recovery in future periods. As the value of FG&E's Regulatory Assets are amortized and/or recovered over the next eight to ten years, income from this segment of FG&E's utility business will continue to decline and ultimately cease.

In accordance with its Restructuring Plan, each year FG&E adjusts its unbundled rate components, including the component that recovers its transition costs, to reconcile any differences between its estimated and actual costs from the prior year. These rate adjustments are subject to the required inflation-adjusted 15% rate discount. FG&E had made three such filings - in 1999, 2000, and 2001. Rate adjustments were approved for effect during the subsequent year, subject to further investigation.

The investigation of FG&E's initial reconciliation filing was initiated in 2000. On October 18, 2001 and October 19, 2001, the MDTE issued a series of regulatory Orders in several pending cases involving FG&E, including a final Order on FG&E's initial reconciliation filing. Those Orders included the review and disposition of issues related to the Company's recovery of transition costs due to the restructuring of the electric industry in Massachusetts, as well as certain costs associated with gas industry restructuring and preparation and litigation of performance based rate proceedings initiated by the MDTE. The Orders determined the final treatment of Regulatory Assets that FG&E had sought to recover from its Massachusetts electric customers over a multi-year transition period that began in 1998. FG&E has now determined that it is authorized to recover approximately \$150 million of Regulatory Assets attributable to stranded generation assets, purchased power costs and related expenses. As a result of these Orders, FG&E recorded a non-cash adjustment to Regulatory Assets of \$5.3 million in the third quarter of 2001, which resulted in the recognition of an extraordinary charge of \$3.9 million after taxes. FG&E will continue to be subject to annual MDTE investigation and review in order to reconcile its restructuring-related costs and revenues, including its transition charge and standard offer service charge.

FG&E's third annual reconciliation and rate adjustment filing, filed on December 2, 2001, included a recast of its rates from 1998 through 2001 in compliance with the MDTE's final Order on its initial reconciliation filing. The investigation of the initial reconciliation filing specifically covered the

period March 1998 through October 1999, however most of the MDTE's cost recovery findings apply after October 1999 as well. As part of this filing, FG&E also reduced its standard offer service fuel adjustment (SOSFA), reflecting lower fuel oil and natural gas costs. The SOSFA is a rate mechanism approved as part of restructuring plans in Massachusetts that provides for the recovery of excessive fuel costs based on a fuel trigger. Revenues collected under the trigger are passed on to standard offer service suppliers. Under the proposed SOSFA, FG&E estimates that all of its SOSFA-related costs, including deferred amounts of about \$4.5 million, will be recovered by the end of November 2002.

On December 27, 2001, the MDTE approved FG&E's SOSFA and base rates for effect January 1, 2002, subject to further investigation. With the MDTE's resolution of cost recovery issues in its October 2001 Orders and anticipated final approval of FG&E's compliance filing, FG&E's financial risk associated with its unbundled cost recovery mechanisms is significantly reduced. The MDTE also allowed FG&E to implement the SOSFA for 2002. FG&E is required to notify the MDTE 45 days in advance of when all SOSFA-related costs are projected to be recovered.

**Massachusetts Gas Operations Restructuring** - As indicated above, in 1997, the MDTE directed all Massachusetts natural gas Local Distribution Companies (LDCs) to form a collaborative with other stakeholders to develop common principles and appropriate regulations for the unbundling of gas service. In November 1999, the LDCs petitioned the MDTE for approval of regulations governing the unbundling of gas services that were developed with the input of participants of the collaborative. Effective November 1, 2000, the MDTE adopted these regulations and LDC tariffs including those of FG&E filed in accordance with the principles developed in the collaborative process. Retail customers are now free to choose a competitive gas supplier, if they wish.

As part of this proceeding, in February 1999, the MDTE issued an Order in which it determined that the LDCs would continue to have an obligation to provide gas supply and delivery services for another five years, with a review after three years. This Order also set forth the MDTE's decision requiring mandatory assignment by LDCs of their pipeline capacity contracts to competitive marketers.

**New Hampshire Electric Operations Restructuring** - On February 28, 1997, the NHPUC issued its Final Plan in response to the New Hampshire Electric Restructuring Law RSA 374-F, passed into law in 1996, for New Hampshire electric utilities to transition to a competitive electric market in the State. The Final Plan linked the interim recovery of stranded cost by the State's utilities to a comparison of their existing rates with the regional average utility rates. CECO's and E&H's rates are below the regional average; thus, the NHPUC found that CECO and E&H were entitled to full interim stranded cost recovery. However, the NHPUC also made certain legal rulings that could affect CECO's and E&H's long-term ability to recover all of their stranded costs. The Company cannot predict the final outcome of the restructuring of its utility operations in New Hampshire, but believes that final resolution of this restructuring process will result in recovery of substantially all its stranded and restructuring-related costs.

Northeast Utilities' affiliate, Public Service Company of New Hampshire (PSNH), filed suit in U.S. District Court for protection from the Final Plan and related orders and was granted an indefinite stay. In June 1997, Unutil, and other utilities in New Hampshire, intervened as plaintiffs in the federal court proceeding. In June 1998, the federal court clarified that the injunctions issued by the court in 1997 had effectively frozen the NHPUC's efforts to implement restructuring. This amended injunction has been challenged by the NHPUC, and affirmed by the First Circuit Court of Appeals. Unutil continues to be a plaintiff-intervenor in federal district court. In October 2000, the NHPUC approved a settlement for the restructuring of PSNH, which was implemented on May 1, 2001.

The Company has continued to work actively to explore settlement options and to seek a fair and reasonable resolution of key restructuring policies and issues in New Hampshire. The Companies are also monitoring the regulatory and legislative proceedings dealing with electric restructuring in the State. As indicated above, the Companies filed a comprehensive restructuring proposal with the NHPUC on January 25, 2002. If approved, the Companies would withdraw their complaint from the federal court proceeding. The restructuring proposal, if approved, will go into effect on or before November 1, 2002. Under the restructuring proposal, the Companies' customers will be allowed to choose a competitive energy supplier, while electricity delivery services will continue to be provided by Unutil. Unutil will sell its portfolio of electricity supply contracts and recover the residual stranded costs over a period of years. Unutil will offer customers a three-year transition service at specified prices and a permanent default service. These services will be procured from the competitive wholesale market.

As part of the restructuring, Unutil is also proposing to combine CECO, E&H, and the remaining functions of UPC into a single distribution utility, Unutil Energy Systems, Inc. As part of the filing, Unutil filed new, consolidated tariff and rate schedules for distribution service in NH and is seeking an increase in base rates for distribution service. Rate levels and rate components applicable to all Unutil customers will change as a result and distribution rates increased, but overall rate levels are expected to be below rate levels in effect at the time of filing.

**Rate Proceedings** - Aside from Unutil's NH restructuring proposal discussed above, the last formal regulatory filings initiated by the Company to increase base rates for Unutil's three retail electric operating subsidiaries occurred in 1985 for CECO, 1984 for FG&E, and 1981 for E&H. A majority of the Company's electric operating revenues are collected under various periodic rate adjustment mechanisms including fuel, purchased power, cost of gas, energy efficiency, and restructuring-related cost recovery mechanisms. Electric industry restructuring will continue to change the methods of how certain costs are recovered through the Company's regulated rates and tariffs.

On the gas side, during FG&E's 1998 gas base rate case proceeding, the Massachusetts Attorney General alleged that FG&E had over-collected fuel inventory finance charges, and requested that the MDTE require FG&E to refund approximately \$1.6 million of charges collected since 1987. The Company believes that the Attorney General's claim is without merit and that a refund was not justified or warranted. Following the MDTE's November 1, 1999 Order initiating an investigation, the MDTE held hearings in 2000. On May 31, 2001, the MDTE issued an Order in this proceeding, finding that FG&E had over-collected the costs in its CGAC mechanism and ordered FG&E to return these costs, in the approximate amount of \$0.7 million plus accumulated and future interest, to customers over the same number of years they were collected. On October 10, 2001, FG&E filed a Motion for Stay pending appeal and Memorandum of Law in Support with the Supreme Judicial Court (SJC). On November 16, 2001, the SJC denied the Motion for Stay, stating that any refunds made by FG&E may be recouped if FG&E prevails before the SJC on the merits of its claims. FG&E has begun to implement a multi-year refund of approximately \$0.2 million per year through its CGAC mechanism in compliance with the MDTE's Order. The review of the MDTE Order by the SJC is currently pending. FG&E continues to assert that no refund is justified or warranted as a matter of fact or law; however, management cannot predict the outcome of this litigation.

On December 31, 1999, the Massachusetts Attorney General filed a complaint under G.L. c. 164, sec. 93, against FG&E requesting that the MDTE investigate the distribution rates, rate of return, and depreciation accrual rates for FG&E's electric operations in calendar year 1999. The MDTE opened a proceeding in November 2000 and investigated the matter in 2001. On October 18, 2001, the MDTE issued an Order, finding that FG&E's electric distribution base rates would generate an annual excess of approximately \$1.2 million in revenue and ordered FG&E to reduce its electric base rates, effective that same day. FG&E submitted its compliance filing on October 19, 2001, and received approval of its filing on October 24, 2001.

**Performance Based Ratemaking** - On October 29, 1999, the MDTE initiated a proceeding to establish guidelines for service quality standards to be included in Performance Based Ratemaking (PBR) plans for all electric and gas distribution utilities in Massachusetts. PBR is a method of setting regulated distribution rates that provides incentives for utilities to control costs while maintaining a high level of service quality. Under PBR, a company's earnings are tied to performance targets and penalties can be imposed for deterioration of service quality. The MDTE issued an Order on June 29, 2001, establishing guidelines for implementation of service-quality measurement programs by gas and electric companies operating under PBR. On October 29, 2001, FG&E filed its Service Quality Plan for its Gas and Electric Divisions as required by the MDTE. On December 5, 2001, FG&E received approval of its Service Quality Plan for its Electric Division, subject to modification pending the conclusion of the service

quality proceeding. Approval of the plan for the Gas Division is pending. FG&E's Gas Division will be filing a PBR plan in April 2002. The requirement to file a PBR plan for the Gas Division stems from FG&E's 1998 gas rate case. FG&E is required to file a PBR plan for its Electric Division in its next electric rate case. The Company is preparing to file such a plan in April 2002. The PBR plan will establish new distribution rates through a traditional cost of service rate proceeding, service quality standards and penalties, and procedures for adjusting retail rates to reflect cost inflation and other factors over the term of the PBR plan.

## **Environmental Matters -**

**Sawyer Passway MGP Site** - The Company continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. FG&E, the Company's Massachusetts utility operating subsidiary, has proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection (DEP), which allows the Company to work towards temporary remediation of the site. The last remaining portion of environmental remediation work necessary to achieve temporary closure of the Sawyer Passway MGP site was completed in late 2001. A status of temporary closure requires FG&E to monitor the site until a feasible permanent remediation alternative can be developed and completed.

Since 1991, FG&E has recovered the environmental response costs incurred at this former MGP site pursuant to a MDTE approved Settlement Agreement (Agreement) between FG&E, certain other Massachusetts gas utilities and the Massachusetts Attorney General. The Agreement allows FG&E to amortize and recover from gas customers over succeeding seven-year periods the environmental response costs incurred each year. Environmental response costs are defined to include liabilities related to manufactured gas sites, waste disposal sites or other sites onto which hazardous material may have migrated as a result of the operation or decommissioning of Massachusetts gas manufacturing facilities from 1882 through 1978. FG&E does not recover carrying charges associated with these costs and any tax benefits related to the payment of such costs are credited to customers in the year they are realized. In addition, any recovery that FG&E receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between FG&E and customers. The total annual charge for such costs assessed to customers cannot exceed five percent of FG&E's total revenue for firm gas sales during the preceding year. Costs in excess of five percent will be deferred for recovery in subsequent years.

**Former Electric Generating Station** - The Company is investigating environmental conditions at a former electric generating station located at Sawyer Passway, which FG&E sold to WRW, a general partnership, in 1983. Rockware International Corporation (Rockware), an affiliate of WRW, acquired rights to the electric equipment in the building and intended to remove, recondition and sell this equipment. During 1985, Rockware demolished several exterior walls of the generating station in order to facilitate removal of certain equipment. The demolition of the walls and the removal of generating equipment resulted in damage to asbestos containing insulation materials inside the building, which had been intact and encapsulated at time of the sale of the structure to WRW.

When Rockware and WRW encountered financial difficulties and ignored orders of the environmental regulators to remedy the situation, FG&E agreed to take steps and obtained DEP approval to temporarily enclose, secure and stabilize the facility. Based on that approval, between September and December 1989, contractors retained by the Company stabilized the facility and secured the building. This work did not permanently resolve the asbestos problems caused by Rockware, but was deemed sufficient for the then foreseeable future.

FG&E, working closely with the DEP and the Massachusetts Attorney General, brought an action in 1986 in the Worcester Superior Court, against Rockware. On July 16, 1990, FG&E filed an amended complaint and obtained a preliminary injunction barring Rockware from removing anything of value from the Fitchburg facility and barring it from further encumbering the property. It also obtained an attachment encumbering all of Rockware's goods, equipment and property, located in Fitchburg, Massachusetts. On June 3, 1993, FG&E, Rockware and WRW entered into an agreement for judgement in favor of the Company in the amount of \$1.6 million and the preliminary injunctions became permanent. FG&E has been unable to collect any amounts from WRW and/or Rockware due to their bankruptcies.

In addition to its efforts to obtain reimbursement and indemnification from WRW and Rockware, FG&E entered into negotiations with its insurers. FG&E reached an interim settlement with its excess insurer and a final settlement with its primary insurer, which provided reimbursement for most of the costs that had been incurred to secure and stabilize the facility at that time.

Due to the continuing deterioration of this former electric generating station and Rockware's continued lack of performance, FG&E, in concert with the DEP and the U.S. Environmental Protection Agency (EPA), conducted further testing and survey work during 2001 to ascertain the environmental status of the building. These recent surveys have revealed continued deterioration of the asbestos containing insulation materials in the building. During an informal meeting on February 8, 2002, the EPA and DEP indicated to the Company that remedial actions are necessary. The Company anticipates receiving a Notice of Responsibility from the EPA by the end of the first quarter of 2002. The Company anticipates that this Notice will require specific remedial action, including abatement and removal of asbestos containing materials. At this time, the Company is uncertain as to the cost of the further remedial action that may be required by environmental regulators or what portion of the cost the Company will be held responsible. However, the Company believes that its liability insurance policies will provide significant coverage for the costs of any clean-up effort and that the ultimate resolution of these matters will not have a material adverse impact on the Company's financial position.

**Market Risk** - Although Unital's utility operating companies are active in markets which are subject to commodity price risk, the current regulatory framework within which these companies operate allows for full collection of fuel and gas costs in rates. Consequently, there is limited commodity price risk exposure after consideration of the related rate-making. As the utility industry continues to deregulate, the Company will be divesting its commodity-related energy businesses and therefore will be further reducing its exposure to commodity-related risk.

## **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 required by this Item is set forth in Exhibit 99.1 on pages 2 through 8 of the 2001 Proxy Statement.

### **Item 11. Executive Compensation**

Information required by this Item is set forth in Exhibit 99.1 on pages 8 through 14 of the 2001 Proxy Statement.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management**

Information required by this Item is set forth in Exhibit 99.1 on pages 3 through 5 of the 2001 Proxy Statement and is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions**

None

## **PART IV**

### **Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

(a) (1) and (2) -

#### **LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES**

The following financial statements are included herein under Part II, Item 8, Financial Statements and Supplementary Data:

- Report of Independent Certified Public Accountants
- Consolidated Balance Sheets - December 31, 2001 and 2000
- Consolidated Statements of Earnings for the years ended December 31, 2001, 2000, and 1999
- Consolidated Statements of Capitalization - December 31, 2001 and 2000
- Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000, and 1999
- Consolidated Statements of Changes in Common Stock Equity for the years ended December 31, 2001, 2000, and 1999
- Notes to Consolidated Financial Statements

The following consolidated financial statement schedule of the Company and subsidiaries is included in Item 14(d):

- Schedule II Valuation and Qualifying Accounts for December 31, 2001, 2000, and 1999

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, are inappropriate, or information required is included in the financial statements or notes thereto and, therefore, have been omitted.

(3) - List of Exhibits

| <u>Exhibit Number</u> | <u>Description of Exhibit</u>  | <u>Reference*</u>                                       |
|-----------------------|--|---|
| 3.1                   | Articles of Incorporation of the Company   | Exhibit 3.1 to Form S-14 Registration Statement 2-93769 |
| 3.2                   | Articles of Amendment to the Articles of Incorporation Filed on March 4, 1992 and April 30, 1992   | Exhibit 3.2 to Form 10-K for 1992                       |
| 3.3                   | By-laws of the Company   | Exhibit 3.2 to Form S-14 Registration Statement 2-93769 |
| 3.4                   | Articles of Exchange of Concord Electric Company (CECo), Exeter & Hampton Electric Company (E&H) and the Company.  | Exhibit 3.3 to 10-K for 1984                            |
| 3.5                   | Articles of Exchange of CECo, E&H, and the Company - Stipulation of the Parties Relative to Recordation and Effective Date.  | Exhibit 3.4 to Form 10-K for 1984                       |
| 3.6                   | The Agreement and Plan of Merger dated March 1, 1989 among the Company, Fitchburg Gas and Electric Light Company (FG&E) and UMC Electric Co., Inc. (UMC).  | Exhibit 25(b) to Form 8-K dated March 1, 1989           |
| 3.7                   | Amendment No. 1 to The Agreement and Plan of Merger dated March 1, 1989 among the Company, FG&E and UMC  | Exhibit 28(b) to Form 8-K dated December 14, 1989       |
| 4.1                   | Indenture of Mortgage and Deed of Trust dated July 15, 1958 of CECo relating to First Mortgage Bonds, Series B, 4 3/8% due September 15, 1988 and all Series unless supplemented.                              | **  |
| 4.2                   | First Supplemental Indenture dated January 15, 1968 relating to CECo's First Mortgage Bonds, Series C, 6 3/4% due January 5, 1998 and all additional series unless supplemented.                               | **  |
| 4.3                   | Fourth Supplemental Indenture dated March 28, 1984 amending CECo's Original First Mortgage Bonds Indenture, and First, Second and Third Supplemental Indentures and all additional series unless supplemented. | **  |
| 4.4                   | Eight Supplemental Indenture dated October 14, 1994 relating to CECo's First Mortgage Bonds, Series I, 8.49% due October 14, 2024 and all additional series unless supplemented.                               | Exhibit 4.8 to Form 10-K for 1994                       |
| 4.5                   | Ninth Supplemental Indenture dated September 1, 1998 relating to CECo's. First Mortgage Bonds, Series J, 6.96% due September 1, 2028   | Exhibit 4.24 to Form 10-K for 1998                      |
| 4.6                   | Tenth Supplemental Indenture dated January 15, 2001 amending CECo's Original First Mortgage Bonds Indenture and all successor supplemental indentures.   | Exhibit 4.1 to Form 10-Q for March 31, 2001             |
| 4.7                   | Eleventh Supplemental Indenture dated April 20, 2001 relating to CECo's. First Mortgage Bonds, Series K, 8.00% due May 1, 2031   | Exhibit 4.2 to Form 10-Q for March 31, 2001             |
| 4.8                   | Bond Purchase Agreement Dated April 20, 2001 relating to CECo's First Mortgage Bonds, Series K, 8.0% due May 1, 2031.  | Exhibit 4.3 to Form 10-Q for March 31, 2001             |
| 4.9                   | Indenture of Mortgage and Deed of Trust dated December 1, 1952 of E&H relating to all series unless supplemented.  | Exhibit 4.5 to Registration Statement                   |

|       |  |  |
|-------|--|--|
| 4.10  | Eighth Supplemental Indenture dated October 29, 1987 relating to E&H's First Mortgage Bonds, Series I, 9.85% due October 15, 1997 and all additional series unless supplemented. | Exhibit 4.15 to Form 10-K for 1987           |
| 4.11  | Tenth Supplemental Indenture dated October 14, 1994 relating to E&H's First Mortgage Bonds, Series K, 8.49% due October 14, 2024 and all additional series unless supplemented.  | Exhibit 4.17 to Form 10-K for 1994           |
| 4.12  | Eleventh Supplemental Indenture dated September 1, 1998 relating to E&H's First Mortgage Bonds, Series L, 6.96% due September 1, 2028  | Exhibit 4.23 to Form 10-K for 1998           |
| 4.13  | Twelfth Supplemental Indenture dated April 20, 2001 relating to E&H's First Mortgage Bonds, Series M, 8.0% due May 1, 2031.  | Exhibit 4.4 to Form 10-Q for March 31, 2001  |
| 4.14  | Bond Purchase Agreement Dated April 20, 2001 relating to E&H's First Mortgage Bonds, Series M, 8.0% due May 1, 2031.   | Exhibit 4.5 to Form 10-Q for March 31, 2001  |
| 4.15  | FG&E Purchase Agreement dated March 20, 1992 for the 8.55% Senior Notes due March 31, 2004   | Exhibit 4.18 to Form 10-K for 1993           |
| 4.16  | FG&E Note Agreement dated November 30, 1993 for the 6.75% Notes due November 23, 2023.   | Exhibit 4.18 to Form 10-K for 1993           |
| 4.17  | FG&E Note Agreement dated January 26, 1999 for the 7.37% Notes due January 15, 2028.   | Exhibit 4.25 to Form 10-K for 1999           |
| 4.18  | FG&E Note Agreement dated June 1, 2001 for the 7.98% Notes due June 1, 2031.   | Exhibit 4.6 to Form 10-Q for June 30, 2001   |
| 4.19  | Unitil Realty Corp. Note Purchase Agreement dated July 1, 1997 for the 8.00% Senior Secured Notes due August 1, 2017.  | Exhibit 4.22 to Form 10-K for 1997           |
| 10.1  | Unitil System Agreement dated June 19, 1986 providing that Unitil Power will supply wholesale requirements electric service to CECo and E&H.                                     | Exhibit 10.9 to Form 10-K for 1986           |
| 10.2  | Supplement No. 1 to Unitil System Agreement providing that Unitil Power will supply wholesale requirements electric service to CECo and E&H.                                     | Exhibit 10.8 to Form 10-K for 1987           |
| 10.3  | Transmission Agreement between Unitil Power Corp. and Public Service Company of New Hampshire, effective November 11, 1992.  | Exhibit 10.6 to Form 10-K for 1993           |
| 10.4  | Form of Severance Agreement dated February 21, 1989, between the Company and the persons named in the schedule attached thereto.   | Exhibit 10.55 to Form 8 dated April 12, 1989 |
| 10.5  | Key Employee Stock Option Plan effective January 17, 1989.   | Exhibit 10.56 to Form 8 dated April 12, 1989 |
| 10.6  | Unitil Corporation Key Employee Stock Option Plan Award Agreement.   | Exhibit 10.63 to Form 10-K for 1989          |
| 10.7  | Unitil Corporation Management Performance Compensation Plan.   | Exhibit 10.94 to Form 10-K/A for 1993        |
| 10.8  | Unitil Corporation Supplemental Executive Retirement Plan effective as of January 1, 1987.   | Exhibit 10.95 to Form 10-K/A for 1993        |
| 10.9  | Unitil Corporation 1998 Stock Option Plan.   | Exhibit 10.12 to Form 10-K for 1998          |
| 10.10 | Unitil Corporation Management Incentive Plan.  | Exhibit 10.13 to Form 10-K for 1998          |
| 10.11 | Entitlement Sale and Administrative Service Agreement with Select Energy.  | Exhibit 10.14 to Form 10-K for 1999          |
| 10.12 | Purchase and Sale Agreement For New Haven Harbor.  | Exhibit 10.15 to                             |

|       |   |                                     |
|-------|---|-------------------------------------|
| 10.13 | Labor Agreement effective June 1, 2000 between CECO and The International Brotherhood of Electrical Workers, Local Union No. 1837.                                  | Exhibit 10.13 to Form 10-K for 2000 |
| 10.14 | Labor Agreement effective June 1, 2000 between E&H and The International Brotherhood of Electrical Workers, Local Union No. 1837.                                   | Exhibit 10.14 to Form 10-K for 2000 |
| 10.15 | Labor Agreement effective June 1, 2000 between FG&E and The Utility Workers of America, AFL-CIO., Local Union No. B340, The Brotherhood of Utility Workers Council. | Exhibit 10.15 to Form 10-K for 2000 |
| 11.1  | Statement Re: Computation in Support of Earnings per Share For the Company.   | Filed herewith                      |
| 12.1  | Statement Re: Computation in Support of Ratio of Earnings to Fixed Charges for the Company.   | Filed herewith                      |
| 21.1  | Statement Re: Subsidiaries of Registrant.   | Filed herewith                      |
| 23.1  | Consent of Independent Certified Public Accountants   | Filed herewith                      |
| 99.1  | 2001 Proxy Statement.   | Filed herewith                      |

\* The exhibits referred to in this column by specific designations and dates have heretofore been filed with the Securities and Exchange Commission under such designations and are hereby incorporated by reference.

\*\* Copies of these debt instruments will be furnished to the Securities and Exchange Commission upon request.

(b) Report on Form 8-K

No reports on Form 8-K were filed during the fourth quarter of the year ended December 31, 2001.

## SIGNATURES

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

Unitil Corporation

Date March 21, 2002

By /s/ Robert G. Schoenberger  
 Robert G. Schoenberger  
 Chairman of the Board Directors,  
 and Chief Executive Officer

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

| <u>Signature</u>  | <u>Capacity</u>                       | <u>Date</u>    |
|---|---------------------------------------|----------------|
| <u>/s/ Robert G. Schoenberger</u><br>Robert G. Schoenberger | Principal Executive Officer; Director | March 21, 2002 |
| <u>/s/ Michael J. Dalton</u><br>Michael J. Dalton           | Principal Operating Officer; Director | March 21, 2002 |

|   |                             |                |
|---|-----------------------------|----------------|
| <u>/s/ Anthony J. Baratta, Jr.</u><br>Anthony J. Baratta, Jr.   | Principal Financial Officer | March 21, 2002 |
| <u>/s/ Albert H. Elfner, III</u><br>Albert H. Elfner, III       | Director                    | March 21, 2002 |
| <u>/s/ Ross B. George</u><br>Ross B. George                     | Director                    | March 21, 2002 |
| <u>/s/ M. Brian O'Shaughnessy</u><br>M. Brian O'Shaughnessy     | Director                    | March 21, 2002 |
| <u>/s/ Charles H. Tenney III</u><br>Charles H. Tenney III       | Director                    | March 21, 2002 |
| <u>/s/ William E. Aubuchon, III</u><br>William E. Aubuchon, III | Director                    | March 21, 2002 |
| <u>/s/ Eben S. Moulton</u><br>Eben S. Moulton                   | Director                    | March 21, 2002 |
| <u>/s/ David P. Brownell</u><br>David P. Brownell               | Director                    | March 21, 2002 |
| <u>/s/ Edward F. Godfrey</u><br>Edward F. Godfrey               | Director                    | March 21, 2002 |
| <u>/s/ Michael B. Green</u><br>Michael B. Green                 | Director                    | March 21, 2002 |

**SCHEDULE II**

**UNITIL CORPORATION  
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**

| Description                         | Balance at Beginning of Period | Additions                     |                               | Deductions from Reserves (B) | Balance at End of Period |
|-------------------------------------|--------------------------------|-------------------------------|-------------------------------|------------------------------|--------------------------|
|                                     |                                | Charged to Costs and Expenses | Charged to Other Accounts (A) |                              |                          |
| <b>Year Ended December 31, 2001</b> |                                |                               |                               |                              |                          |
| Reserves Deducted from A/R          |                                |                               |                               |                              |                          |
| Electric                            | \$ 452,872                     | \$ 940,590                    | \$ 86,161                     | \$ 1,021,080                 | \$ 458,543               |
| Gas                                 | 142,810                        | 54,162                        | 656,952                       | 711,082                      | 142,842                  |
|                                     | <u>\$ 595,682</u>              | <u>\$ 994,752</u>             | <u>\$ 743,113</u>             | <u>\$ 1,732,162</u>          | <u>\$ 601,385</u>        |

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**Year Ended December 31, 2000**

Reserves Deducted from A/R

|          |    |         |    |         |    |         |    |           |    |         |
|----------|----|---------|----|---------|----|---------|----|-----------|----|---------|
| Electric | \$ | 464,797 | \$ | 455,353 | \$ | 81,286  | \$ | 548,564   | \$ | 452,872 |
| Gas      |    | 133,803 |    | 48,202  |    | 413,277 |    | 452,472   |    | 142,810 |
|          |    |         |    |         |    |         |    |           |    |         |
|          | \$ | 598,600 | \$ | 503,555 | \$ | 494,563 | \$ | 1,001,036 | \$ | 595,682 |

**Year Ended December 31, 1999**

Reserves Deducted from A/R

|          |    |         |    |         |    |         |    |           |    |         |
|----------|----|---------|----|---------|----|---------|----|-----------|----|---------|
| Electric | \$ | 568,025 | \$ | 441,694 | \$ | 113,625 | \$ | 658,547   | \$ | 464,797 |
| Gas      |    | 78,059  |    | 365,365 |    | 65,256  |    | 374,877   |    | 133,803 |
|          |    |         |    |         |    |         |    |           |    |         |
|          | \$ | 646,084 | \$ | 807,059 | \$ | 178,881 | \$ | 1,033,424 | \$ | 598,600 |

(A) Collections on Accounts Previously Charged Off

(B) Bad Debts Charged Off

**UNITIL CORPORATION**  
**Computation in Support of Earnings per Share**

|  | Year Ended December 31, |                 |                 |
|--|-------------------------|-----------------|-----------------|
|  | 2001                    | 2000            | 1999            |
|  | (000's omitted)         |                 |                 |
| <b>BASIC EARNINGS PER SHARE</b>  |                         |                 |                 |
| Net Income before Extraordinary Item   | \$ 5,027                | \$ 7,216        | \$ 8,438        |
| Extraordinary Item, net  | <u>(3,937)</u>          | ----            | ----            |
| Net Income   | 1,090                   | 7,216           | 8,438           |
| Less: Dividend Requirements on Preferred Stock                                 | <u>257</u>              | <u>263</u>      | <u>268</u>      |
| Net Income Applicable to Common Stock  | <u>\$ 833</u>           | <u>\$ 6,953</u> | <u>\$ 8,170</u> |
| Average Number of Common Shares Outstanding                                    | 4,744                   | 4,723           | 4,682           |
| Basic Earnings per Average Common Shares Outstanding                           | <u>\$ 0.18</u>          | <u>\$ 1.47</u>  | <u>\$ 1.74</u>  |
| <b>DILUTED EARNINGS PER SHARE</b>  |                         |                 |                 |
| Net Income before Extraordinary Item   | \$ 5,027                | \$ 7,216        | \$ 8,438        |
| Extraordinary Item, net  | <u>(3,937)</u>          | ----            | ----            |
| Net Income   | 1,090                   | 7,216           | 8,438           |
| Less: Dividend Requirements on Preferred Stock                                 | <u>257</u>              | <u>263</u>      | <u>268</u>      |
| Net Income Applicable to Common Stock  | <u>\$ 833</u>           | <u>\$ 6,953</u> | <u>\$ 8,170</u> |
| Average Number of Common Shares Outstanding plus<br>Assumed Options converted* | 4,760                   | 4,743           | 4,697           |
| Basic Earnings per Average Common Shares Outstanding                           | <u>\$ 0.18</u>          | <u>\$ 1.47</u>  | <u>\$ 1.74</u>  |

\* Assumes all options were converted to common shares per SFAS 128.

**UNITIL CORPORATION**  
**Computation in Support of Ratio of Earnings to Fixed Charges**

|  | Year Ended December 31, |           |           |           |           |
|--|-------------------------|-----------|-----------|-----------|-----------|
|  | 2001                    | 2000      | 1999      | 1998      | 1997      |
| (000's Omitted Except Ratio)                       |                         |           |           |           |           |
| <b>Earnings:</b>                                   |                         |           |           |           |           |
| Net Income before Extraordinary Item               | \$ 5,027                | \$ 7,216  | \$ 8,438  | \$ 8,249  | \$ 8,235  |
| Extraordinary Item, net                            | (3,937)                 | ----      | ----      | ----      | ----      |
| Net Income, per Consolidated Statement of Earnings | 1,090                   | 7,216     | 8,438     | 8,249     | 8,235     |
| Federal and State Income Taxes included in :       |                         |           |           |           |           |
| Operations   | 3,421                   | 3,413     | 4,047     | 3,710     | 4,166     |
| Investment Write-down                              | 1,236                   | ----      | ----      | ----      | ----      |
| Extraordinary Item                                 | 1,388                   | ----      | ----      | ----      | ----      |
| Interest on Long-Term Debt                         | 7,637                   | 6,440     | 6,477     | 5,412     | 5,242     |
| Amortization of Debt Discount Expense              | 72                      | 60        | 60        | 61        | 60        |
| Other Interest                                     | 1,895                   | 2,105     | 1,091     | 1,787     | 1,889     |
| Total  | \$ 16,739               | \$ 19,234 | \$ 20,113 | \$ 19,219 | \$ 19,592 |
| <b>Fixed Charges:</b>                              |                         |           |           |           |           |
| Interest of Long-Term Debt                         | \$ 7,637                | \$ 6,440  | \$ 6,477  | \$ 5,412  | \$ 5,242  |
| Amortization of Debt Discount Expense              | 72                      | 60        | 60        | 61        | 60        |
| Other Interest                                     | 1,895                   | 2,105     | 1,091     | 1,787     | 1,889     |
| Pre-tax Preferred Stock Dividend Requirements      | 417                     | 398       | 406       | 415       | 418       |
| Total  | \$ 10,021               | \$ 9,003  | \$ 8,034  | \$ 7,675  | \$ 7,609  |
| <b>Ratio of Earnings to Fixed Charges</b>          | <b>1.67</b>             | 2.14      | 2.50      | 2.50      | 2.57      |

**Subsidiaries of Registrant**

*The Company or the registrant has seven wholly-owned subsidiaries, six of which are corporations organized under the laws of the State of New Hampshire: Concord Electric Company, Exeter & Hampton Electric Company, Unitil Power Corp., Unitil Realty Corp., Unitil Resources, Inc. and Unitil Service Corp. The seventh, Fitchburg Gas and Electric Light Company, is organized under the laws of the State of Massachusetts. Usource, Inc., which is a corporation organized under the laws of the State of Delaware, is a wholly owned subsidiary of Unitil Resources, Inc. Usource L.L.C., which is a corporation organized under the laws of the State of Delaware is a wholly owned subsidiary of Usource, Inc.*

**CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

*We have issued our report dated February 5, 2002, accompanying the consolidated financial statements and schedule included in the Annual Report of Unital Corporation and subsidiaries on Form 10-K for the year ended December 31, 2001. We hereby consent to the incorporation by reference of said report in the Registration Statements of Unital Corporation and subsidiaries on Form S-3 (File No. 333-42264 filed on July 26, 2000) and on Form S-8 (File No. 333-42266 filed on July 26, 2000).*

*/s/ GRANT THORNTON LLP*

*Boston, Massachusetts  
March 21, 2002*



*We deliver.*

*It's that simple.*

## NOTICE OF ANNUAL MEETING OF COMMON SHAREHOLDERS

*Hampton, New Hampshire  
March 11, 2002*

*To the Common Shareholders:*

*You are hereby notified that the annual meeting of common shareholders of Unitil Corporation will be held at the office of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Thursday, April 18, 2002, at 10:30 A.M., for the following purposes:*

- 1. To elect five Directors.*
- 2. To act on such other matters as may properly come before the meeting and any adjournments thereof.*

*The enclosed form of proxy has been prepared at the direction of the Board of Directors of Unitil and is sent to you at its request. The persons named in said proxy have been designated by the Board of Directors.*

*The Board of Directors fixed February 21, 2002, as the date for determining holders of record of Common Stock who are thereby entitled to notice of and to vote at this meeting and any adjournments thereof.*

*Regardless of whether or not you plan to attend the meeting, you can be sure your shares are represented at the meeting by promptly signing, dating and returning the enclosed proxy card in the postage-paid envelope. If for any reason you desire to revoke or change your proxy, you may do so at any time prior to the meeting, or in person at the meeting.*

*By Order of the Board of Directors,*

*/s/ Mark H. Collin*

*Treasurer & Secretary*



*We deliver.*

*It's that simple.*

## Proxy Statement

### ANNUAL MEETING OF COMMON SHAREHOLDERS, APRIL 18, 2002

This proxy statement is furnished in connection with the solicitation by the Board of Directors of proxies in the accompanying form for use at the 2002 annual meeting of common shareholders of Unitil Corporation ("Unitil" or "the Company"). Each proxy can be revoked at any time before it is voted by written notification to the Secretary of Unitil at the address listed on page 18 prior to the meeting, or in person at the meeting. Every properly signed proxy will be voted unless previously revoked.

Unitil presently has seven subsidiaries, Concord Electric Company ("CECo"), Exeter & Hampton Electric Company ("E&H"), Fitchburg Gas and Electric Light Company ("FG&E"), Unitil Power Corp. ("Unitil Power"), Unitil Realty Corp. ("Unitil Realty"), Unitil Resources, Inc. ("Unitil Resources") and Unitil Service Corp. ("Unitil Service").

The annual report of Unitil for the year 2001 is enclosed and includes consolidated financial statements that are not part of this proxy statement.

The voting securities of Unitil issued and outstanding on February 21, 2002, consisted of 4,743,696 shares of Common Stock, no par value, entitling the holders thereof to one vote per share. Holders of Common Stock of record on such date are entitled to notice of and to vote at the annual meeting and any adjournments thereof. A majority of the outstanding shares of Common Stock constitutes a quorum.

Except as set forth below, no person owns of record and, to the knowledge of Unitil, no person owns beneficially more than five percent of the Common Stock of Unitil which may be voted at the meeting and any adjournments thereof.

| Name and Address<br>of Beneficial Owner                          | Shares of Common Stock<br>Beneficially Owned | Percent of Shares<br>Outstanding |
|--|--|----------------------------------|
| Charles H. Tenney II<br>30 Cedar Road<br>Chestnut Hill, MA 02167 | 270,542 <sup>(1)</sup>                       | 5.70%                            |

NOTES:

- Based on information provided by Mr. Tenney. Total shares of Common Stock owned by Mr. Tenney include 3,034 shares which are held in trust under the terms of the Unitil Tax Deferred Savings and Investment Plan (401(k)). (See "Other Compensation Arrangements"). Mr. Tenney has voting power only with respect to the shares credited to his account. Mr. Tenney is the former Chairman and CEO and a former Director of the Company. Mr. Tenney retired from the Board of Directors in April, 1999. Mr. Tenney is current Director Charles H. Tenney III's father. (See "Information About Directors Whose Terms of Office Continue.")

The eleven Directors and the officers of Unitil as a group have beneficial ownership as of February 21, 2002, of 75,144 shares (1.58%) of Common Stock, of which they have direct beneficial ownership of 55,993 shares (1.18%), which excludes options to purchase 153,496 shares (3.24%) pursuant to the exercise of those options, and indirect beneficial ownership of 19,151 shares (0.40%). To the knowledge of Unitil, each Director and each officer has voting and investment power with respect to the shares directly owned. With regard to certain of the indirect beneficial ownership by said group, see the footnotes to the table contained in the section of this proxy statement entitled "As to the Election of Directors" setting forth certain information about the Directors of Unitil.

Assuming a quorum is present, the favorable vote of a majority of the shares of Common Stock represented and voting will be required for approval of all matters, including the election of Directors, which may come before the meeting.

**As to the Election of Directors**

Unitil's By-Laws provide for a Board of between nine and fifteen Directors divided into three classes, each class being as nearly equal in number as possible, and each with their respective terms of office arranged so that the term of office of one class expires in each year, at which time a corresponding number of Directors is elected for a term of three years. Unitil currently has eleven Directors.

The Board of Directors has a stock ownership policy that no person be nominated as a candidate for Director for election to a second term as part of the slate of Directors proposed by the Company unless he or she is a beneficial owner, either directly or indirectly, of at least 1,000 shares of Unitil Common Stock. The Board of Directors also has an age limitation policy that has been in effect since January, 1999, such that no person be nominated as a candidate for Director for reelection as part of the slate of Directors proposed for election by the Company after he or she has reached age 70.

## Information About Nominees for Directors

Each nominee has been a member of the Board of Directors since the date indicated. Proxies will be voted for the persons whose names are set forth below unless instructed otherwise. If any nominee shall be unable to serve, the proxies will be voted for such person as may be designated by management to replace such nominee. Each of the nominees has consented to being named in this proxy statement and to serve if elected. Unless otherwise indicated, all shares shown represent sole voting and investment power.

### Nominees for Directors whose terms will expire in the year 2005

| Director Since   | Common Stock Owned<br>Beneficially on February 21, 2002 (1)<br>Shares |
|--|---|
| <b>David P. Brownell, Age 58</b><br>Senior Vice President of Tyco International Ltd., ("Tyco") (diversified global manufacturing and service company) Exeter, NH. Mr. Brownell has been with Tyco since 1984. Mr. Brownell is also Volunteer Board President of the United Way of the Greater Seacoast, on the Board of the University of New Hampshire Foundation and the NH Junior Achievement Advisory Council. | 2001 (2)<br><br>429   |
| <b>Albert H. Elfner, III, Age 57</b><br>Retired Chairman (1994-1999) and Chief Executive Officer (1995-1999) of Evergreen Investment Management Company, Boston, MA. Mr. Elfner is also a Trustee of the Memorial Drive Trust, Cambridge, MA, and a Director of NGM Insurance Company, Keene, NH.  | 1999<br><br>5,491   |
| <b>Ross B. George, Age 69</b><br>Chairman of the Board, since 1999 (Director since 1988) of Simonds Industries, Inc., ("Simonds") Fitchburg, MA. Mr. George served as Chief Executive Officer (1995-1999) and President and Chief Operating Officer (1988-1995), also at Simonds. (industrial cutting tools manufacturing company)   | 1999<br><br>3,409   |
| <b>Michael B. Green, Age 52</b><br>President and Chief Executive Officer of Capital Region Health Care and Concord Hospital, Concord, NH, since 1992. Mr. Green also serves on the Boards of the Greater Concord Chamber of Commerce, Foundation for Healthy Communities, and Community Provider Network of Central New Hampshire.   | 2001 (2)<br><br>279   |
| <b>M. Brian O'Shaughnessy, Age 59</b><br>Chairman of the Board, Chief Executive Officer and President of Revere Copper Products, Inc., Rome, NY, since 1988.   | 1998<br><br>1,975   |

## Information About Directors Whose Terms of Office Continue

|  | Director Since | Term to Expire | Common Stock Owned Beneficially on February 21, 2002 (1) Shares |
|--|----------------|----------------|---|
| <b>William E. Aubuchon, III, Age 57</b><br>Chairman and Chief Executive Officer of W.E. Aubuchon Company, Inc. (retail hardware company), Westminster, MA, since 1993. Mr. Aubuchon is also a Director of the North Central Massachusetts Chamber of Commerce, since 1991, and a Director of the Mt. Wachusett Community College Foundation, Inc., Gardner, MA, since 1999.  | 1999           | 2003           | 436   |
| <b>Michael J. Dalton, Age 61</b><br>President and Chief Operating Officer of Unutil. Mr. Dalton is also a Director, since 1996, and Secretary, since 1997, of the University of New Hampshire Foundation.  | 1984           | 2004           | 71,635 (3)(4)(5)  |
| <b>Edward F. Godfrey, Age 52</b><br>Retired Executive Vice President and Chief Operating Officer (1997-1998) of Keystone Investments, Incorporated ("Keystone"), Boston, MA. Also at Keystone, Mr. Godfrey was Senior Vice President, Chief Financial Officer and Treasurer from 1988 until 1996.  | 2002 (6)       | 2004           | 1,000   |
| <b>Eben S. Moulton, Age 55</b><br>President of Seacoast Capital Corporation, Danvers, MA (equity investment company) since 1995. Mr. Moulton is also a Director of IEC Electronics (complex circuit boards manufacturer), a Director of PartMiner, Inc., (global distributor of computer components), a Director of Home Market Foods, and a Trustee of Colorado College, Colorado Springs, CO.  | 2000           | 2004           | 436   |
| <b>Robert G. Schoenberger, Age 51</b><br>Chairman of the Board and Chief Executive Officer of Unutil since 1997. Prior to his employment with Unutil, Mr. Schoenberger was President and Chief Operating Officer at the New York Power Authority (state owned public power enterprise) from 1993 until 1997. Mr. Schoenberger is also a Director of the Greater Seacoast (NH) United Way since 1998, Director of Exeter Health Resources, Exeter, NH, since 1998, Director of Enermetrix, Inc., Maynard, MA, since 1999, and a Director of the New England Gas Association, since 1999.  | 1997           | 2003           | 98,701 (3)(7)(8)  |
| <b>Charles H. Tenney III, Age 54 (9)</b><br>Former financial advisor (2001-2002) at H&R Block Financial Advisors, Ashland, MA. Mr. Tenney is also former Director of Corporate Services (1999-2000), Log On America, Inc., Providence, RI (New England regional competitive local exchange carrier and information/Internet service provider). Mr. Tenney is the former Secretary (1997-1999) of Northern Utilities, Inc., Portsmouth, NH (natural gas distributor) and former Secretary (1997-1999) of Granite State Gas Transmission, Inc., Portsmouth, NH. Mr. Tenney is also the former Clerk (1991-1999) of Bay State Gas Company, a subsidiary of NIPSCO Industries, Inc., Merrillville, IN. (utility holding company) | 1992           | 2003           | 3,321   |

NOTES:

Except as otherwise noted, each of the persons named above has held his present position (or another executive position with the same employer) for more than the past five (5) years.

1. Based on information furnished to Unutil by the nominees and continuing Directors. No Director standing for election, no Director whose term is continuing and no officer owns more than one percent of the total outstanding shares.
2. Mr. Brownell and Mr. Green are Director nominees elected to the Board by the Board of Directors upon recommendation by the Executive Committee in June, 2001. Neither Mr. Brownell nor Mr. Green have previously been elected by the shareholders of the Company.
3. Included are 2,636 and 4,921 shares that are held in trust for Messrs. Schoenberger and Dalton, respectively, under the terms of the Unutil Tax Deferred Savings and Investment Plan ("401(k)"). Messrs. Schoenberger and Dalton have voting power only with respect to the shares credited to their accounts. For further information regarding 401(k), see "Other Compensation Arrangements - Tax-Qualified Savings and Investment Plan" below.
4. Included are 30,000 options that Mr. Dalton has the right to purchase upon the exercise of those options under the terms of the 1998 Stock Option Plan ("Option Plan"). See "Other Compensation Arrangements." Mr. Dalton was granted 10,000 options in March, 1999, 10,000 options in January, 2000, and 10,000 options in January, 2001, all of which will vest at a rate of 25% in year one, 25% in year two, and 50% in year three, following the dates of the respective grants.
5. Included are 9,211 shares held by a member of Mr. Dalton's family. He has no voting rights or investment power with respect to, and no beneficial interest in, such shares.
6. Mr. Godfrey was elected by the Board in January, 2002, to fill the position vacated by Bruce W. Keough. Article II of Unutil's By-Laws provides that a Director elected by the Board to fill a vacancy, whether due to the death, resignation, or other inability to serve of any Director previously elected, shall be elected for the unexpired term of his predecessor in office. Mr. Keough, who resigned from the Board in June, 2001, was elected in April, 2001, for a term of three years.
7. Included are 30,996 options that Mr. Schoenberger has the right to purchase pursuant to the exercise of those options under the terms of the 1989 Key Employee Stock Option Plan ("KESOP"). For further information regarding the KESOP, see "Other Compensation Arrangements" below.
8. Included are 60,000 options that Mr. Schoenberger has the right to purchase upon the exercise of those options under the terms of the 1998 Stock Option Plan ("Option Plan"). See "Other Compensation Arrangements." Mr. Schoenberger was granted 20,000 options in March, 1999, 20,000 options in January, 2000, and 20,000 options in January, 2001, all of which will vest at a rate of 25% in year one, 25% in year two, and 50% in year three, following the dates of the respective grants.
9. Mr. Tenney is the son of Charles H. Tenney II, former Chairman and CEO of the Company, and currently, 5.7% shareholder of the Company, as noted on page 2.

The Board of Directors met nine times in 2001. During 2001, Directors attended an average of 96% of all meetings of the Board of Directors held and of all meetings held by all Committees of the Board on which they served, if any.

Section 17(a) of the Public Utility Holding Company Act of 1935 and Section 16(a) of the Securities Exchange Act of 1934 require the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity

securities, to file certain reports of ownership and changes in share ownership with the Securities and Exchange Commission and the American Stock Exchange and to furnish the Company with copies of all Section 17(a) and Section 16(a) forms they file. Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that such forms were not required for those persons, the Company believes that all filing requirements applicable to its officers and directors during 2001 and through February, 2002, were met.

## Compensation of Directors

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In 2001, members of the Board of Directors who are not officers of Unitil or any of its subsidiaries received an annual retainer fee of \$7,000 in cash and \$5,500 in Unitil Common Stock, as well as \$500 for each Board Meeting attended. Members of the Executive Committee who are not officers of Unitil or any of its subsidiaries received an annual retainer fee of \$3,000 and \$400 for each meeting attended. The Chairman of the Executive Committee received an annual retainer fee of \$15,000, and \$400 for each meeting attended. Members of the Audit Committee and Compensation Committee received an annual retainer fee of \$1,000 and \$400 for each meeting attended. The Chairman of the Audit Committee and the Chairman of the Compensation Committee received an annual retainer fee of \$2,000, respectively, and \$400 for each meeting attended. Those Directors of Unitil who also serve as Directors of CECo, E&H or FG&E and who are not officers of Unitil or any of its subsidiaries received a meeting fee of \$100 per subsidiary meeting attended and no annual retainer fee from CECo, E&H or FG&E. All Directors are entitled to reimbursement of expenses incurred in connection with attendance at meetings of the Board of Directors and any Committee on which they serve.

As part of the Company's overall support for charitable institutions, the Company has a program that provides a perpetual gift of \$1,000 annually to the Greater Seacoast United Way ("United Way") on behalf of each Director who retires from the Board. The Director(s) receive no financial benefit from this program as the charitable deductions accrue solely to the Company. In 2001, two Directors retired from the Board.

In 1999, the Board of Directors approved the Unitil Corporation Directors' Deferred Compensation Plan ("Deferred Plan") for the purpose of allowing non-employee members of the Board to defer payment of all or a specified part of compensation for services performed as a Director. The Deferred Plan is administered by the Compensation Committee and stipulates that eligible Directors may elect to defer all or a portion of their cash retainer and meeting fees. Separate accounts are maintained for each Director participant, which are an unfunded liability of the Company. Additionally, accounts are credited monthly with interest based on the current rate of 60-month Treasury bills. Funds contributed and interest credited is tax deferred until withdrawn from the Deferred Plan. Director participants may elect to withdraw funds from the Deferred Plan after a fixed amount of time, upon resignation or retirement from the Board, upon death or disability, or upon a Change in Control. Withdrawals may be taken in cash, either in one lump sum or in a series of installments. During 2001, no Directors participated in the Deferred Plan.

## Committees of the Board of Directors

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### Executive Committee

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The Executive Committee of the Board of Directors held seven meetings in 2001. Its members are Albert H. Elfner, III (Chairman), Eben S. Moulton, M. Brian O'Shaughnessy, Robert G. Schoenberger, and Charles H. Tenney III. This Committee's responsibility is to review and oversee corporate policies related to the Company's long-range strategic business, financial and operating plans. In addition, the Executive Committee also acts as a nominating committee. In its function as a nominating committee, the Committee coordinates suggestions or searches for potential nominees for Board members; reviews and evaluates qualifications of potential Board members; and recommends to the Board of Directors nominees for vacancies occurring from time to time on the Board of Directors. The Committee will consider nominees recommended by shareholders upon timely submission of the names of such nominees with qualifications and biographical information forwarded to the Executive Committee of the Board of Directors. The Executive Committee's duties also include the review and recommendation of corporate governance standards and the annual review of Board member and CEO performance.

### Audit Committee

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The Audit Committee of the Board of Directors consists of three directors who are not officers of the Company and are independent as defined by the listing standards of the American Stock Exchange. The members of the Audit Committee are: William E. Aubuchon, III, Ross B. George (Chairman) and Edward F. Godfrey. The Audit Committee held six meetings in 2001 for the purpose of overseeing management's responsibilities for accounting, internal controls and financial reporting. After review and consideration, the Audit Committee also recommended the appointment of an independent certified public accounting firm for the following fiscal year, which was subsequently approved by the Board of Directors. The Report of the Audit Committee, which

appears below, and the Audit Committee Charter, which appears in Appendix A, more fully describe the activities and responsibilities of the Audit Committee.

## Compensation Committee

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The Compensation Committee of the Board of Directors, which held five meetings in 2001, consists of David P. Brownell, Michael B. Green and Eben S. Moulton (Chairman). The duties of this Committee include studying and making recommendations to the Board of Directors with respect to base and incentive compensation plans and payments and other benefits to be paid to the officers of Unitil. The Compensation Committee's duties also include the annual review of management succession planning, administration of the Company's Stock Option Plans, administration of merit, incentive and commission compensation plans for all appropriate personnel and administration of the Directors' Deferred Compensation Plan.

## Report of the Audit Committee

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During the fiscal year ended December 31, 2001, the Audit Committee of the Board of Directors held six meetings. In accordance with the Charter, the Audit Committee is responsible for providing independent and objective oversight of the Company's accounting functions, internal controls and financial reporting. The Audit Committee also reviews the Charter annually and adopts any amendments necessary to reflect changes governing financial reporting and accounting requirements or its responsibilities. A copy of the Audit Committee Charter is attached to this Proxy Statement as Appendix A.

During 2001, the Audit Committee reviewed the audit plan and audit scope of both the independent auditors (Grant Thornton, LLP) and the Internal Auditor. The Audit Committee discussed the quality and adequacy of the Company's internal controls with senior management, the Internal Auditor and the independent auditors. These discussions also included a review of the results of the internal audits performed including follow-up on previous internal and external audit recommendations as well as an overview of ongoing compliance matters. In addition, the Audit Committee retained the independent auditors to perform non-audit services. In doing so, the Audit Committee felt assured that these non-audit services would not impact the objectivity of the independent auditors. The independent auditor's fees incurred for the fiscal year are itemized below:

|   |           |
|---|-----------|
| <u>Audit Fees</u> (for quarterly and annual financial reports)  | \$120,000 |
| <u>All Other Fees</u> (includes review services for a subsidiary, accounting services for investment activities, regulatory services, tax services, and employee benefit plan audits) | \$144,186 |

In discharging its oversight responsibility regarding the audit process, the Audit Committee received a written statement from the independent auditors describing all relationships between the auditors and the Company that might bear on their independence, consistent with Independence Standards Board Standard No. 1 - "Independence Discussions with Audit Committees." In addition, the Audit Committee discussed with the auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditors' independence. The Audit Committee also discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, "Communication with Audit Committees."

Management is responsible for the preparation of the Company's financial statements and the independent auditors are responsible for the audit of those statements. In November 2001, the Audit Committee reviewed the financial presentation and public disclosures regarding the accounting recognition of an extraordinary non-cash charge resulting from Restructuring Orders issued by the Massachusetts Department of Telecommunications and Energy. In addition, during 2001, the Audit Committee members received the quarterly financial information for review and comment prior to the filing of Form 10-Q with the Securities and Exchange Commission. In fulfilling its responsibilities for the financial statements for fiscal year 2001, the Audit Committee also reviewed the audited financial statements of the Company, for the fiscal year ended December 31, 2001, with management and the independent auditors. This review included a discussion of the accounting recognition and financial presentation regarding a charge to write down the book value of a non-utility investment resulting from a decrease in market valuation as prescribed in FASB 115, "Accounting for Certain Investments in Debt and Equity Securities." Based on the reviews with management and the independent auditors, the Audit Committee recommended that the Board of Directors include the audited financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, for filing with the Securities and Exchange Commission.

Audit Committee Members

William E. Aubuchon, III, Ross B. George (Chairman), and Edward F. Godfrey

## Report of the Compensation Committee

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Upon the recommendation of the Compensation Committee, the Board of Directors votes to approve the compensation of the Chief Executive Officer. The Committee reports all of its decisions to the Board. The Board unanimously accepted each of the recommendations, described below, made in 2001 and to date in 2002. The Committee also approves the compensation of all other Company executive officers listed in the Summary Compensation Table, as well as other senior employees. The Board ratifies the compensation decision for these executive officers.

The overall objective of the Company's Board of Directors, and specifically this Compensation Committee, in setting compensation for Unital's executive officers, is to attract, retain and reward managers who are committed to solid financial performance and foster excellence in the management of the assets of the Company and who can successfully lead the Company as the industry undergoes unprecedented change and restructuring. To help meet these objectives, the Committee believes it is important for the Company to provide compensation to its executive officers that varies directly with the performance of the Company.

The Company pays both "base" and "variable" compensation to its officers. The base component of compensation is determined under Unital's salary policy, which is reviewed from time to time by outside consultants as to its competitiveness. Variable compensation is based on factors that measure the success of the Company for any given year and is governed by Unital's Management Incentive Plan ("Incentive Plan"). These performance factors are set the same for both the general employee and management incentive programs to ensure that all employees are focused on common bottom line business and operational results. The factors under the Incentive Plan provide a cash incentive opportunity if the Company meets certain targets for Core Utility Earnings (normalized), Reliability, Low Distribution Costs, Customer Satisfaction, and New Business Initiatives. The Plan also requires a subjective evaluation by the Board, which rates management's performance in capitalizing on unplanned opportunities and responding to unforeseen problems. The bonus opportunities are set by level of the executive position according to other companies in the utility industry. In 2001, certain objective targets for Core Utility Earnings (normalized), Reliability, Distribution Costs, and Customer Satisfaction were met. In addition, the Committee discussed and evaluated the subjective target of the Incentive Plan to determine how well the Company met the Board's expectations in dealing with challenges and opportunities in 2001. The Committee took into consideration such factors as coping with extensive regulatory issues, restructuring the Usource operation, and responding to other opportunities. Upon consideration and evaluation of these and other factors, the Committee determined that an incentive payout of 80% of target would be appropriate. The payout for 2001 performance will be made during the first quarter of 2002, and will therefore be reflected on the "Compensation of Officers" Table in the 2002 Proxy Statement.

In addition, to further align the interest of the Company's management with shareholders and customers, the Company, in 1998, instituted a Stock Option Plan ("Option Plan"). The Option Plan provides grants of options to buy common shares of Company Stock. The Option Plan anticipates the granting of options over a period of five years, and each grant will vest over a three-year period. Each option grant is priced at the market price on the date of the grant. This plan emphasizes long-term growth of the price of the Company's Common Stock. In January, 2001, the Committee granted a total of 60,000 options to the members of senior management.

The compensation of the Chief Executive Officer ("CEO"), is governed by these same plans and objectives. As Chairman of the Board and CEO, Mr. Schoenberger was paid an annual base salary of \$292,000 in 2001. This amount, based on the terms of Mr. Schoenberger's 2000-2003 employment agreement calling for \$292,000 per annum with an annual performance and salary review, was determined in accordance with Unital's salary policy. Mr. Schoenberger's employment agreement with the Company is further detailed on pages 17 and 18. In connection with the Incentive Plan, in February, 2002, Mr. Schoenberger was paid \$116,800 for performance in meeting goals set for 2001. Mr. Schoenberger's incentive compensation is evaluated using the same factors as the executive participants in the Incentive Plan, as discussed above.

The Committee periodically reviews each component of the Company's executive compensation program to ensure that pay levels and incentive opportunities are competitive and that incentive opportunities are linked to Company performance. The Company engaged a nationally known compensation consulting firm in 1998 to review the competitiveness of the total compensation package for the CEO and other executive positions. As a result of this review, the Company adopted a new salary policy, new base salary ranges, a new Management Incentive Plan (see "Other Compensation Arrangements") and the Option Plan described above (see also "Other Compensation Arrangements"). These new policies and plans brought the Company's compensation practices into line with current market conditions for competitive pay levels of utility executives, and better support the achievement of the Company's mission and strategies.

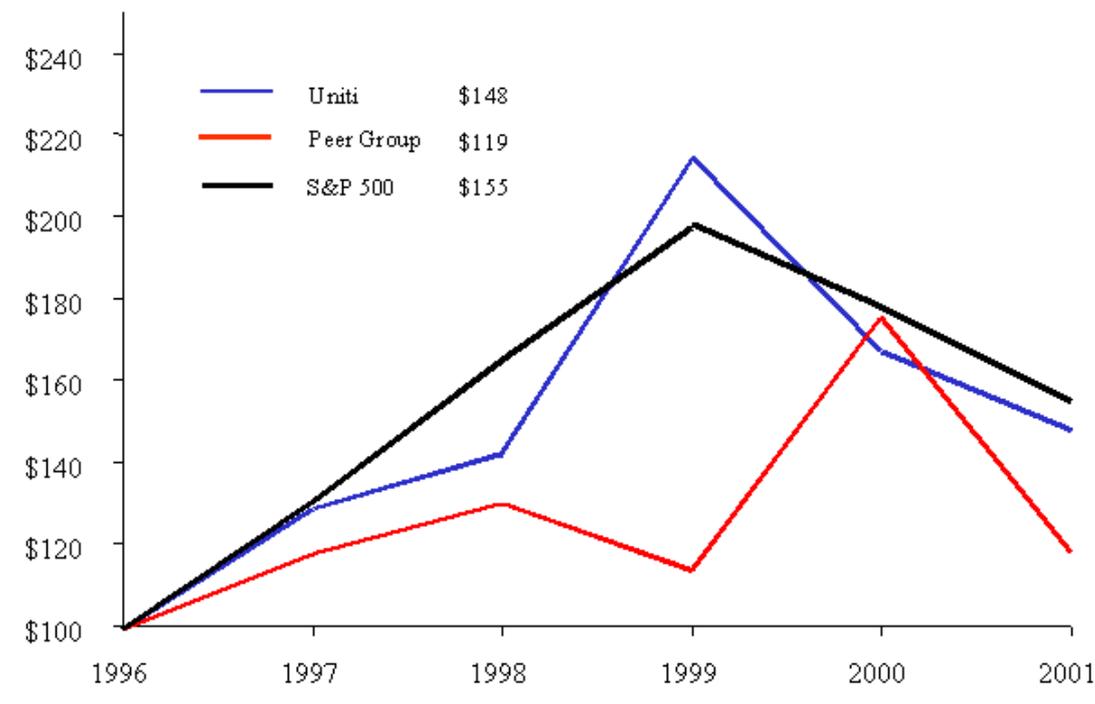
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Compensation Committee Members

David P. Brownell, Michael B. Green, and Eben S. Moulton (Chairman)

## Stock Performance Graph and Information

### Comparative Five-Year Total Returns



### Compensation of Officers

The tabulation below shows the compensation Unitil, or any of its subsidiaries, has paid to its Chief Executive Officer and its four most highly compensated officers whose total annual salary and bonus were at least \$100,000 during the year 2001.

#### SUMMARY COMPENSATION TABLE

| Name and Principal Position (1)  | Year | Annual Compensation |                | Long Term Compensation       |             |             | All Other Comp. (\$) |
|--|------|---------------------|----------------|------------------------------|-------------|-------------|----------------------|
|  |      | Salary (\$)         | Bonus (\$ (2)) | Other Annual Comp. (\$)      | Awards      | Payout      |                      |
|  |      |                     |                | Restricted Stock Awards (\$) | Options (#) | LTIP Payout |                      |
| <b>Robert G. Schoenberger</b><br>Chairman of the Board &<br>Chief Executive Officer  | 2001 | \$292,000           | \$110,924      | --                           | --          | 20,000 (3)  | \$6,574 (6)          |
|  | 2000 | 278,004             | 80,115         | --                           | --          | 20,000 (4)  | --                   |
|  | 1999 | 267,048             | 109,415        | --                           | --          | 20,000 (5)  | --                   |
| <b>Michael J. Dalton</b><br>President & Chief Operating<br>Officer                   | 2001 | \$213,710           | \$65,910       | --                           | --          | 10,000 (3)  | \$8,094 (7)          |
|  | 2000 | 206,484             | 47,880         | --                           | --          | 10,000 (4)  | --                   |
|  | 1999 | 199,500             | 67,882         | --                           | --          | 10,000 (5)  | --                   |
| <b>Anthony J. Baratta, Jr.</b><br>Senior Vice President &<br>Chief Financial Officer | 2001 | \$176,132           | \$46,631       | --                           | --          | 5,000 (3)   | \$6,662 (8)          |
|  | 2000 | 167,098             | 33,390         | --                           | --          | 5,000 (4)   | --                   |
|  | 1999 | 159,078             | 33,606         | --                           | --          | 10,000 (5)  | --                   |
| <b>George R. Gantz</b><br>Senior Vice President,<br>Unitil Service                   | 2001 | \$144,602           | \$33,126       | --                           | --          | 2,500 (3)   | \$5,001 (9)          |
|  | 2000 | 138,372             | 23,836         | --                           | --          | 2,500 (4)   | --                   |
|  | 1999 | 132,420             | 32,261         | --                           | --          | 2,500 (5)   | --                   |
| <b>Mark H. Collin</b><br>Treasurer & Secretary                                       | 2001 | \$117,000           | \$21,347       | --                           | --          | 2,000 (3)   | \$4,371 (10)         |
|  | 2000 | 107,000             | 15,882         | --                           | --          | 1,500 (4)   | --                   |
|  | 1999 | 90,761              | 14,278         | --                           | --          | 1,500 (5)   | --                   |

**NOTES:**

- Officers of the Company also hold various positions with subsidiary companies. Compensation for those positions is included in the above table.
- Bonus amounts reflected are comprised of the Unitil Management Incentive Plan ("Incentive Plan") cash awards paid in February, 2001, for 2000 results. The terms of the Incentive Plan provide a cash incentive opportunity if the Company meets certain pre-established performance targets (see "Other Compensation Arrangements").
- Options were granted in January, 2001, under the 1998 Stock Option Plan ("Option Plan"). Options will vest at a rate of 25% in year one, 25% in year two, and 50% in year three, following the date of the grant. As of February, 2002, 25% of options granted are vested and exercisable.

4. Options were granted in January, 2000, under the 1998 Stock Option Plan ("Option Plan"). Options will vest at a rate of 25% in year one, 25% in year two, and 50% in year three, following the date of the grant. As of February, 2002, 50% of options granted are vested and exercisable.
5. Options were granted in March, 1999, under the Option Plan. Options will vest at a rate of 25% in year one, 25% in year two, and 50% in year three, following the date of the grant. As of February, 2002, 50% of options granted are vested and exercisable.
6. All Other Compensation for Mr. Schoenberger for the year 2001 includes 401(K) company contribution, and Group Term Life Insurance payment valued at \$5,100 and \$1,474, respectively.
7. All Other Compensation for Mr. Dalton for the year 2001 includes 401(K) company contribution, and Group Term Life Insurance payment valued at \$5,100 and \$2,994, respectively.
8. All Other Compensation for Mr. Baratta for the year 2001 includes, 401(K) company contribution and Group Term Life Insurance payment, valued at \$5,100 and \$1,562, respectively.
9. All Other Compensation for Mr. Gantz for the year 2001 includes, 401(K) company contribution and Group Term Life Insurance payment, and valued at \$4,338 and \$662, respectively.
10. All Other Compensation for Mr. Collin for the year 2001 includes 401(K) company contribution and Group Term Life Insurance payment, valued at \$4,150 and \$221, respectively.

## Other Compensation Arrangements

The table below provides information with respect to options granted in fiscal 2001 under the 1998 Stock Option Plan (See also "Other Compensation Arrangements") to the named executive officers in the Summary Compensation table. The Company has no compensation plan under which Stock Appreciation Rights ("SARs") are granted and thus reference to SARs has been omitted from the table.

| OPTION GRANTS IN LAST FISCAL YEAR   |   |  |                                |                               |           |           | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term |          |  |
|---|---|--|--------------------------------|-------------------------------|-----------|-----------|--|----------|--|
| Individual Grants   |   |  |                                |                               |           |           | Option Term  |          |  |
| (a)   | (b)   | (c)  | (d)                            | (e)                           | (f)       | (g)       |  |          |  |
| Name  | Number of Securities Underlying Options Granted (#) | % of Total Options Granted to Employees in Fiscal Year | Option Price                   |                               | Exp. Date | 5% (\$)   |  | 10% (\$) |  |
|   |   |  | Exercise or Base Price (\$/Sh) | Market Price on Date of Grant |           |           |  |          |  |
| <b>Robert G. Schoenberger</b><br>Chairman of the Board & Chief Executive Officer  | 20,000  | 33.3%  | \$25.875                       | \$25.875                      | 1/16/11   | \$326,025 | \$824,740  |          |  |
| <b>Michael J. Dalton</b><br>President & Chief Operating Officer                   | 10,000  | 16.7%  | \$25.875                       | \$25.875                      | 1/16/11   | \$163,013 | \$412,370  |          |  |
| <b>Anthony J. Baratta, Jr.</b><br>Senior Vice President & Chief Financial Officer | 5,000   | 8.3%   | \$25.875                       | \$25.875                      | 1/16/11   | \$81,506  | \$206,185  |          |  |
| <b>George R. Gantz</b><br>Senior Vice President<br>Unitil Service                 | 2,500   | 4.2%   | \$25.875                       | \$25.875                      | 1/16/11   | \$40,753  | \$103,093  |          |  |
| <b>Mark H. Collin</b><br>Treasurer & Secretary                                    | 2,000   | 3.3%   | \$25.875                       | \$25.875                      | 1/16/11   | \$32,603  | \$82,474   |          |  |

The table below provides information with respect to the value of unexercised options granted in prior years under the Key Employee Stock Option Plan ("KESOP") and the value of unexercised options granted in prior years and in 2001 under the 1998 Stock Option Plan ("Option Plan"), respectively, to the named executive officers in the Summary Compensation Table and held by them as of December 31, 2001.

| AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR (FY)                              |                                 |                     |   |                  |  |                  |
|---|---------------------------------|---------------------|---|------------------|--|------------------|
| AND FY-END OPTION VALUES <sup>(1)</sup> <sup>(2)</sup>                            |                                 |                     |   |                  |  |                  |
| Name  | Shares Acquired on Exercise (#) | Value Realized (\$) | Number of Unexercised Options at FY-End (#) |                  | Value of Unexercised In-the-Money Options at FY-End (\$) |                  |
| (a)   | (b)                             | (c)                 | (d)   |                  | (e)  |                  |
|   |                                 |                     | Exercisable/Unexercisable                   |                  | Exercisable/Unexercisable                                |                  |
| <b>Robert G. Schoenberger</b><br>Chairman of the Board & Chief Executive Officer  | --                              | --                  | exercisable<br>unexercisable                | 40,000<br>45,000 | exercisable<br>unexercisable                             | \$175,125<br>\$0 |
| <b>Michael J. Dalton</b><br>President & Chief Operating Officer                   | --                              | --                  | exercisable<br>unexercisable                | 7,500<br>22,500  | exercisable<br>unexercisable                             | \$0<br>\$0       |
| <b>Anthony J. Baratta, Jr.</b><br>Senior Vice President & Chief Financial Officer | --                              | --                  | exercisable<br>unexercisable                | 6,250<br>13,750  | exercisable<br>unexercisable                             | \$0<br>\$0       |
| <b>George R. Gantz</b><br>Senior Vice President,<br>Unitil Service                | --                              | --                  | exercisable<br>unexercisable                | 1,875<br>5,625   | exercisable<br>unexercisable                             | \$0<br>\$0       |
| <b>Mark H. Collin</b><br>Treasurer & Secretary                                    | --                              | --                  | exercisable<br>unexercisable                | 1,125<br>3,875   | exercisable<br>unexercisable                             | \$0<br>\$0       |

NOTES:

1. The KESOP authorizes the Compensation Committee to provide in the award agreements that the participant's right to exercise the options provided for therein will be accelerated upon the occurrence of a "Change in Control" of Unutil. The term "Change in Control" is defined in substantially the same manner as in the Severance Agreements as defined on pages 15 and 16. Award agreements entered into with participants in the KESOP contain such a "Change in Control" provision. Award agreements also provide that, upon the exercise of an option on or after a Change in Control, Unutil shall pay to the optionee, within five business days, a lump sum cash amount equal to the economic benefit of the optionee's outstanding options and associated dividend equivalents that the optionee would have received had the option remained unexercised until the day preceding the expiration of the grant. Upon the exercise of any option by an employee and upon payment of the option price for shares of Unutil Common Stock as to which the option was granted (the "Primary Shares"), Unutil will cause to be delivered to such employee (i) the Primary Shares and (ii) the number of shares of Unutil Common Stock (the "Dividend Equivalent Shares") equal to the dollar amount of dividends which would have been paid on the Primary Shares (and previously accrued Dividend Equivalent Shares) had they been outstanding, divided by the fair market value of Unutil Common Stock determined as of the record date for each dividend. All options, with the exception of Mr. Schoenberger's options (see Note 3), associated with the KESOP were exercised as of March 7, 1999.
2. The Option Plan authorizes the Compensation Committee to provide in the award agreements that the participant's right to exercise the options provided for therein will be accelerated upon the occurrence of a Change in Control of Unutil, and will become 100% vested and fully exercisable. The term "Change in Control" is defined in substantially the same manner as in the Severance Agreements as defined on pages 15 and 16. All of the award agreements entered into with participants in the Option Plan to date contain such a "Change in Control" provision. The options reported in the table were granted in March, 1999, January, 2000, and January, 2001, under the Option Plan.
3. In accordance with the terms of Mr. Schoenberger's 1997 employment agreement, on November 3, 1997, he received 25,000 options to purchase shares of Company stock under the KESOP. The options granted to Mr. Schoenberger became exercisable on November 3, 1998. In 1998, the Compensation Committee extended the expiration date of Mr. Schoenberger's options until November 3, 2007 (ten years from the date of the grant), because the KESOP originally provided ten years between the grant and expiration of options.
4. Mr. Schoenberger's 25,000 exercisable KESOP options listed in column (d) in the table above do not include non-preferential dividend equivalents earned under the provisions of the KESOP and associated with options outstanding.

In December, 1998, the Unutil Board of Directors adopted the Unutil Corporation 1998 Stock Option Plan ("Option Plan"). The Company intends to grant stock options each year through March 1, 2004, under the plan to certain employees and directors, for the purchase of up to 350,000 shares of Unutil Common Stock. To date, grants were made to certain management employees in March, 1999, January, 2000, and January 2001. Each option grant will vest over a three year period and each grant will expire ten years after the date of grant.

The purpose of the Option Plan is to provide an incentive to key employees and directors of Unutil and its affiliates who are in a position to contribute materially to the long-term success of Unutil and/or its affiliates, to increase their interest in the welfare of Unutil and its affiliates, and to attract and retain employees and directors of outstanding ability. The Compensation Committee administers the Option Plan. The Committee has the authority to interpret the Option Plan and to designate recipients of the stock options.

Stock options granted under the Option Plan will entitle the holders of those options to purchase up to the number of shares of common stock specified in the grant at a price established by the Committee. All grants will be issued at 100% of market value. Under the Option Plan, stock options for shares constituting not more than five percent of the common stock may be issued in any one year.

The Company adopted a new Management Incentive Plan and a new Employee Incentive Plan in December, 1998, to provide cash incentive payments that are tied directly to achievement of the Company's strategic goals. Annual goals are established each year by the Board of Directors and payment of awards is made in February of the year following achievement of the goals. Target incentive payments have been established that vary based upon the grade level of each position. Actual awards can be less than or greater than the target payout depending upon actual results achieved.

Unutil maintains a tax-qualified defined benefit pension plan and related trust agreement (the "Retirement Plan") that provides retirement annuities for eligible employees of Unutil and its subsidiaries. Since the Retirement Plan is a defined benefit plan, no amounts were contributed or accrued specifically for the benefit of any officer of Unutil under the Retirement Plan. Directors of Unutil who are not and have not been officers of Unutil or any of its subsidiaries are not eligible to participate in the Retirement Plan.

The table below sets forth the estimated annual benefits (exclusive of Social Security payments) payable to participants in the specified compensation and years of service classifications, assuming continued active service until retirement. The average annual earnings used to compute the annual benefits are subject to a \$200,000 limit.

| <b>PENSION PLAN TABLE</b>                                     |                        |                        |                        |                        |
|---|------------------------|------------------------|------------------------|------------------------|
| Average Annual Earnings<br>Used for Computing<br>Pension (\$) | ANNUAL PENSION (\$)    |                        |                        |                        |
|   | 10 Years<br>of Service | 20 Years<br>of Service | 30 Years<br>of Service | 40 Years<br>of Service |
| 100,000   | 20,000                 | 40,000                 | 50,000                 | 55,000                 |
| 125,000   | 25,000                 | 50,000                 | 62,500                 | 68,750                 |
| 150,000   | 30,000                 | 60,000                 | 75,000                 | 82,500                 |
| 200,000   | 40,000                 | 80,000                 | 100,000                | 110,000                |

The present formula for determining annual benefits under the Retirement Plan's life annuity option is (i) 2% of average annual salary (average annual salary during the five consecutive years out of the last twenty years of employment that give the highest average salary) for each of the first twenty years of benefit service, plus (ii) 1% of average annual salary for each of the next ten years of benefit service and (iii) 1/2% of average annual salary for each year of benefit service in excess of thirty, minus (iv) 50% of age 65 annual Social Security benefit (as defined in the Retirement Plan), and (v) any benefit under another Unutil retirement plan of a former employer for which credit for service is given under the Retirement Plan. A participant is eligible for early retirement at an actuarially reduced pension upon the attainment of age 55 with at least 15 years of service with Unutil or one of its subsidiaries. A participant is 100% vested in his benefit under the Retirement Plan after five years of service with Unutil or one of its subsidiaries. As of January 1, 2002, Messrs. Schoenberger, Dalton, Baratta, Gantz and Collin had 4, 34, 4, 18 and 13 credited years of service, respectively, under the Retirement Plan.

Unitil also maintains a Supplemental Executive Retirement Plan ("SERP"), a non-qualified defined benefit plan. SERP provides for supplemental retirement benefits to executives selected by the Board of Directors. At the present time, Messrs. Schoenberger and Dalton are eligible for SERP benefits upon attaining normal or early retirement eligibility. Annual benefits are based on a participant's final average earnings less the participant's benefits payable under the Retirement Plan, less other retirement income payable to such participant by Unitil or any previous employer and less income that a participant receives as a primary Social Security benefit. Early retirement benefits are available to a participant, with the Unitil Board's approval, if the participant has attained age 55 and completed 15 years of service. Should a participant elect to begin receiving early retirement benefits under SERP prior to attaining age 60, the benefits are reduced by 5% for each year that commencement of benefits precedes attainment of age 60. If a participant terminates employment for any reason prior to retirement, the participant will not be entitled to any benefits. Under the SERP, Messrs. Schoenberger and Dalton would be entitled to receive an annual benefit of \$39,734 and \$19,263, respectively, assuming normal retirement at age 65 and that their projected final average earnings are equal to the average of their respective three consecutive years of highest compensation prior to retirement.

Unitil and certain subsidiaries maintain severance agreements (the "Severance Agreements") with certain management employees, including Executive Officers. The Severance Agreements are intended to help assure continuity in the management and operation of Unitil and its subsidiaries in the event of a proposed "Change in Control". Each Severance Agreement only becomes effective upon the occurrence of a Change in Control of Unitil as defined in the Severance Agreements. If an employee's stipulated compensation and benefits, position, responsibilities and other conditions of employment are reduced during the thirty-six month period following a Change in Control, the employee is entitled to a severance benefit.

The severance benefit is a lump sum cash amount equal to (i) the present value of three years' base salary and bonus; (ii) the present value of the additional amount the employee would have received under the Retirement Plan if the employee had continued to be employed for such thirty-six month period; (iii) the present value of contributions that would have been made by Unitil or its subsidiaries under the 401(k) if the employee had been employed for such thirty-six month period; and (iv) the economic benefit on any outstanding Unitil stock options and associated dividend equivalents, if applicable, assuming such options remained unexercised until the day preceding the expiration of the grant, including the spread on any stock options that would have been granted under the Option Plan if the employee had been employed for such thirty-six month period. Each Severance Agreement also provides for the continuation of all employee benefits for a period of thirty-six months, commencing with the month in which the termination occurred. In addition, pursuant to each Severance Agreement, Unitil is required to make an additional payment to the employee sufficient on an after-tax basis to satisfy any additional individual tax liability incurred under Section 280G of the Internal Revenue Code of 1986, as amended, with respect to such payments.

The Company entered into an initial employment agreement with Mr. Schoenberger on November 1, 1997. The term of the agreement was for three years with an expiration date of October 31, 2000. Under the terms of the 1997 employment agreement ("the 1997 Agreement"), Mr. Schoenberger received an annual base salary of \$245,000 which was subject to annual review by the Board for discretionary periodic increases in accordance with the Company's compensation policies. Mr. Schoenberger was entitled to participate in the Company's SERP, Executive Supplemental Life Insurance Program and all other employee benefit plans made available by the Company. On November 3, 1997, Mr. Schoenberger also received 25,000 options to purchase shares of Company stock under the Company's 1989 Key Employee Stock Option Plan ("KESOP). In 1998, the Compensation Committee extended the expiration date of the options granted to Mr. Schoenberger under the KESOP until November 3, 2007. Said options were originally set to expire on March 7, 1999. Mr. Schoenberger was reimbursed for all reasonable interim living and reasonable travel expenses during 1997 and 1998. In addition, in 1998, Mr. Schoenberger was reimbursed for all direct moving expenses and received \$50,000 when he relocated to the area, as was stipulated in the terms of the 1997 Agreement. The 1997 Agreement also provided that the Company and Mr. Schoenberger enter into a Severance Agreement, more fully described above. Mr. Schoenberger and the Company entered into said Severance Agreement on February 6, 1998. According to the 1997 Agreement, the Company, by action of the Board, may terminate Mr. Schoenberger's employment for any reason. If Mr. Schoenberger's employment had been terminated by the Company during the term of the 1997 Agreement for any reason other than Cause, death or disability, the Company would have been obligated to pay Mr. Schoenberger's base pay at the rate in effect on the date of employment termination and benefits until the end of the term of the 1997 Agreement, or if employment termination was after November 1, 1999, for one year.

Upon the expiration of the 1997 Agreement, the Company entered into a second employment agreement ("the 2000 Agreement") with Mr. Schoenberger on November 1, 2000. The term of the agreement is for three years with an expiration date of October 31, 2003. Under the terms of the 2000 Agreement, Mr. Schoenberger will receive an annual base salary of \$292,000 which is subject to annual review by the Board for discretionary periodic increases in accordance with the Company's compensation policies. Mr. Schoenberger is entitled to continued participation in the Company's SERP, Executive Supplemental Life Insurance Program and all other employee benefit plans made available by the Company. The 2000 Agreement provides that Mr. Schoenberger shall participate in the Management Incentive Plan, which is described in the Compensation Committee Report on page 9 and also on page 14, and the Option Plan, which is described on page 14, or any stock option or similar plan of the Company. The agreement also provides that the Severance Agreement, entered into on February 6, 1998, by and between Mr. Schoenberger and the Company, remain in effect. The Severance Agreement is more fully described on pages 15 and 16. The 2000 Agreement also provides that the Company, by action of the Board, may terminate Mr. Schoenberger's employment for any reason. If Mr. Schoenberger's employment is terminated by the Company during the term of the agreement for any reason other than Cause, death or disability, or if Mr. Schoenberger terminates his employment because of Constructive Termination, the Company shall pay Mr. Schoenberger a combination of (i) base pay at the rate in effect on the date of employment termination, (ii) an annual amount equal to the average of the annual bonus amounts received by Mr. Schoenberger in the two calendar years preceding the year in which termination occurs, and (iii) benefits, in each case for a period of two years following the date of termination. If during such two - -

year period Mr. Schoenberger shall secure full-time employment, the Company's obligation to provide benefits shall cease. All such payments described above will be made in accordance with the Company's regular payroll policies.

## **As to Other Matters to Come Before the Meeting**

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The Board of Directors does not intend to bring before the meeting any matters other than the one referred to above and knows of no other matters which may properly come before the meeting. If any other matters or motions come before the meeting, it is the intention of the persons named in the accompanying form of proxy to vote such proxy in accordance with their judgment on such matters or motions, including any matters dealing with the conduct of the meeting.

The Board of Directors has selected and employed the firm of Grant Thornton as Unitil's independent certified public accountants to audit Unitil's financial statements for the fiscal year 2001. A representative of the firm will be present at the meeting and will be available to respond to appropriate questions. It is not anticipated that such representative will make a prepared statement at the meeting; however, he will be free to do so if he so chooses.

Any proposal submitted by a shareholder of Unitil for inclusion in the proxy material for the 2003 annual meeting of shareholders must be received by Unitil at its Corporate Headquarters not later than November 13, 2002.

## **Solicitation, Revocation and Use of Proxies**

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Shares of Unitil Common Stock represented by properly executed proxies received by Unitil prior to or at the meeting will be voted at the meeting in accordance with the instructions specified on the proxies. If no instructions are specified on such proxies, shares will be voted FOR the election of the nominees for Directors. Abstentions and non-votes will have the same effect as negative votes.

Any Unitil shareholder who executes and returns a proxy has the power to revoke such proxy at any time before it is voted by filing with the Secretary of Unitil, at the address of Unitil set forth above, written notice of such revocation or a duly executed proxy bearing a later date, or by attending and voting in person at the meeting. Attendance at the meeting will not in and of itself constitute a revocation of a proxy.

Unitil will bear the costs of solicitation by the Board of Directors of proxies from Unitil shareholders. In addition to the use of the mail, proxies may be solicited by the Directors, officers and employees of Unitil by personal interview, telephone, telegram or otherwise. Such Directors, officers and employees will not be additionally compensated, but may be reimbursed for out-of-pocket expenses in connection with such solicitation. Arrangements also will be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of stock held of record by such persons, and Unitil may reimburse such custodians, nominees and fiduciaries for reasonable out-of-pocket expenses in connection therewith.

By Order of the Board of Directors,

Mark H. Collin  
Treasurer & Secretary

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Unitil will furnish without charge to any shareholder entitled to vote and to any beneficial owner of shares entitled to be voted at the annual meeting of common shareholders, to be held April 18, 2002, a copy of its annual report on Form 10-K, including financial statements and schedules thereto, required to be filed with the Securities and Exchange Commission for the fiscal year 2001, upon written request to Mark H. Collin, Treasurer, Unitil Corporation, 6 Liberty Lane West, Hampton, NH 03842-1720.

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Unitil Corporation  
**AUDIT COMMITTEE**  
**CHARTER OF DUTIES AND RESPONSIBILITIES**

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*The Audit Committee is a standing committee of the Board of Directors. The committee is comprised of three non-management Directors and holds a minimum of two scheduled meetings during each calendar year.*

*The principal functions of the Audit Committee are:*

- a. To make recommendations to the Board of Directors regarding the engagement of the Company's independent auditor after reviewing management's evaluation and recommendation of the auditor and their independence, and to review the arrangements for and scope of the independent audit and the fees proposed for such audit, as well as the scope and proposed fees for additional non-audit services.*
- b. To ensure receipt from the independent auditor of a formal written statement delineating all relationships between the independent auditor and the Company, consistent with Independence Standards Board Standard 1.*
- c. To actively engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor.*
- d. To review the results of the audit engagement with the independent auditor and their Memorandum of Advisory Comments and management's responses thereon.*
- e. To review with the Company's management and the independent auditor the accounting principles applied or to be applied in financial reporting, and to review and approve any major policy changes affecting the Company's financial presentation.*
- f. To review and approve the annual internal audit plan and to review the results of internal audits and comments on the Company's system of internal controls and compliance therewith.*
- g. To review implementation and/or resolution of previous internal and external audit recommendations.*
- h. To report activities of the Committee to the Board of Directors and make such recommendations and findings concerning any audit or related matters as it deems appropriate.*
- i. To meet periodically with the independent and/or internal auditors to discuss any matters that the Committee and/or the auditors wish to discuss in Executive session.*
- j. To maintain final approval authority over any proposed terminations involving the Internal Audit Services function.*
- k. To review with management, the internal auditor and the independent auditors, the adequacy of the accounting for, and disclosure of, material contingencies in the Company's financial reporting.*
- l. To prepare annually a Report of the Audit Committee for inclusion in the Company's annual proxy statement.*
- m. To review and assess the adequacy of the Audit Committee Charter on an annual basis.*
- n. To include the Audit Committee Charter as an appendix to the Company's annual proxy statement at least once every three years, or more frequently if substantive changes are made to the Charter.*

*The members of the Audit Committee are not employees of the Company and, in accordance with the listing standards of the American Stock Exchange, are free of any relationship that would interfere with the exercise of independent judgment as a member of the Audit Committee.*

*The Audit Committee represents the Board of Directors, discharging its responsibility of oversight of the financial reporting process by carrying out the above functions. The existence and activities of the committee, however, does not alter the traditional roles and responsibilities of the Company's management and the independent auditor with respect to the accounting and internal control functions and financial statement presentation.*

