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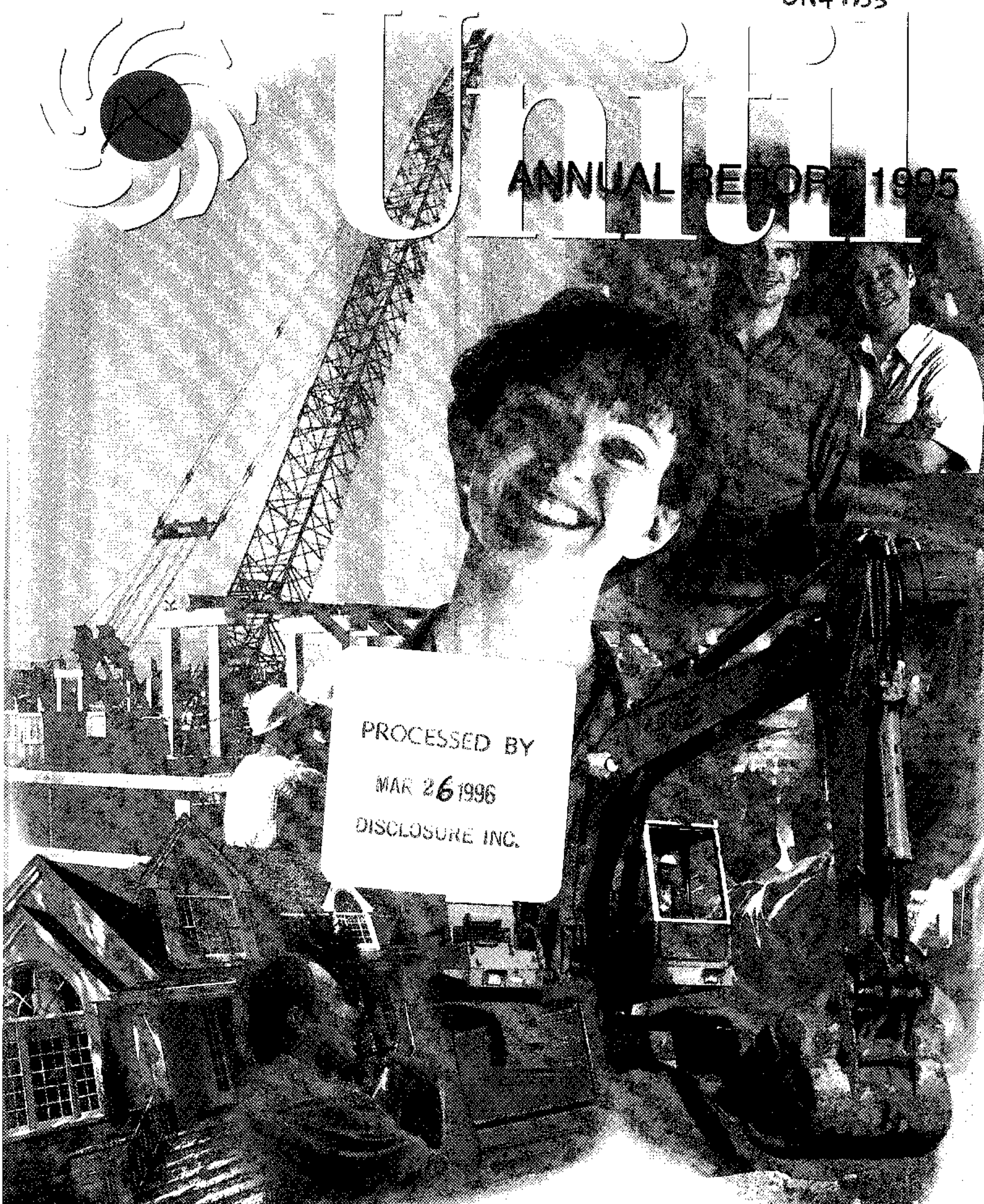
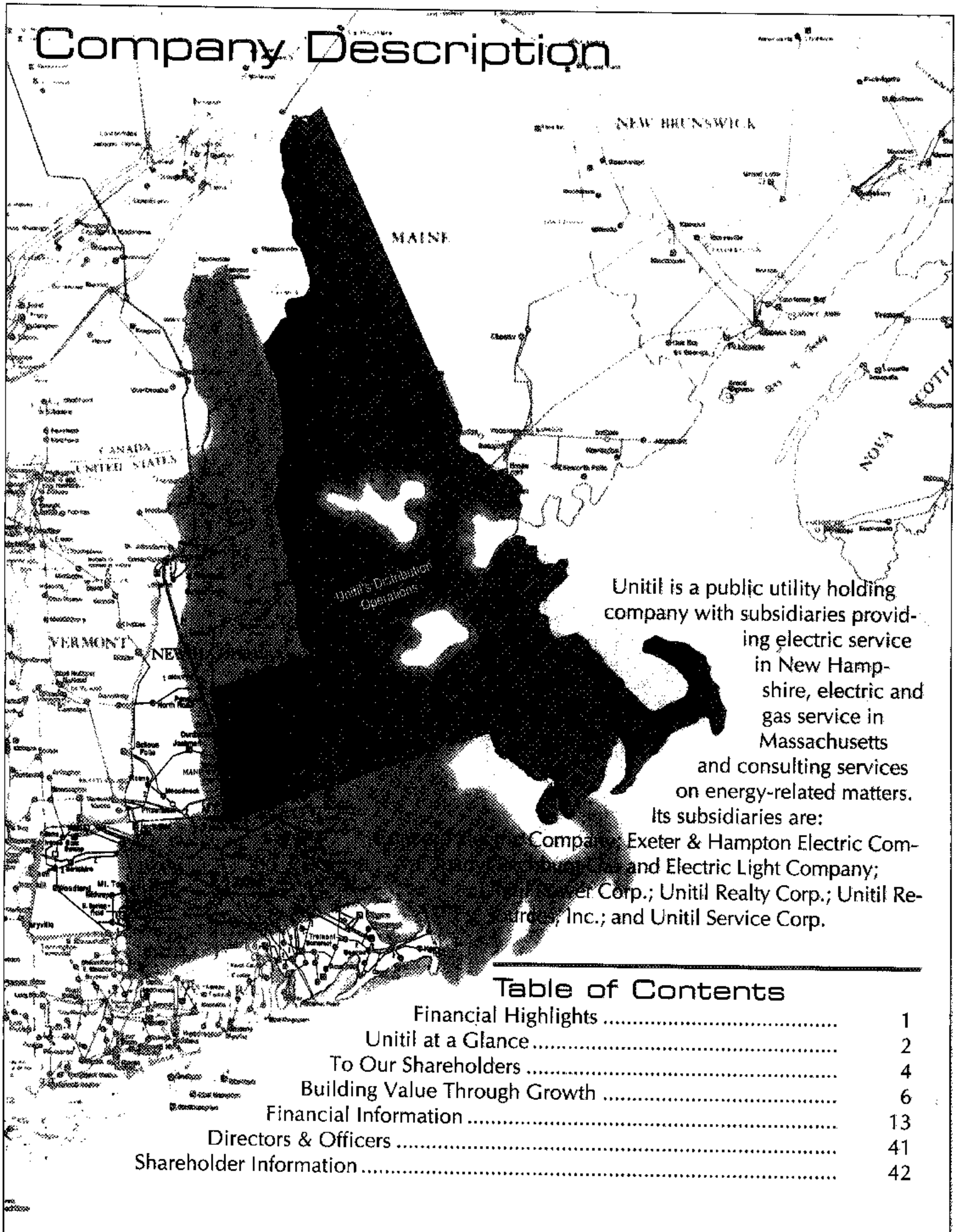
Unitil

ANNUAL REPORT 1995



Building Value
Through Growth

Company Description



Northeast Power Coordinating Council Electric System Map

Unitil is a public utility holding company with subsidiaries providing electric service in New Hampshire, electric and gas service in Massachusetts and consulting services on energy-related matters. Its subsidiaries are: Company; Exeter & Hampton Electric Com- and Electric Light Company; er Corp.; Unitil Realty Corp.; Unitil Re- urces, Inc.; and Unitil Service Corp.

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Unitil
your energy choice

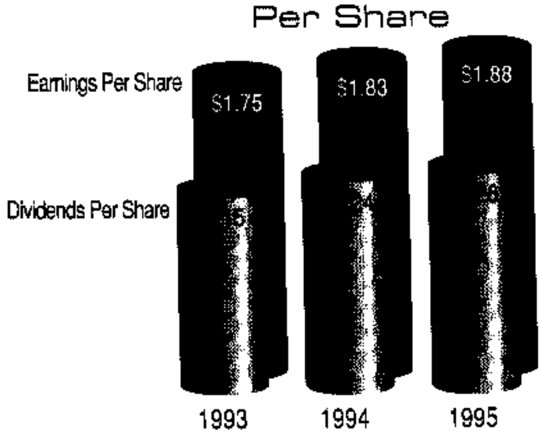
A new look . . .
for a new era.

The Unitil System of companies is proud to display a new trademark and logotype, symbolic of energy, movement, growth and progress. Together the trademark and logotype form a unique signature for the Unitil System.

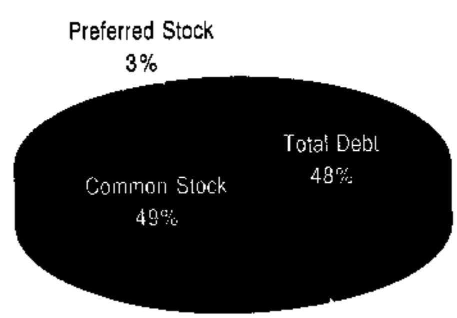
Financial Highlights

	1995	1994	1993
Financial Data			
Electric Operating Revenues (000's)	**$138,099**	$134,097	$132,755
Gas Operating Revenues (000's)	**$17,630**	$18,695	$18,486
Other Operating Revenues (000's)	**$941**	$624	$368
Total Operating Revenues (000's)	**$156,670**	$153,416	$151,609
Net Income (000's)	**$8,369**	$8,038	$7,600
Dividend Payout Ratio	**68%**	68%	66%
Return on Average Common Equity	**13.1%**	13.3%	13.4%
Total Assets (000's)	**$211,702**	$204,521	$201,509
Equity Capitalization	**52%**	49%	48%
Cash Construction Expenditures (000's)	**$14,645**	$8,943	$7,714
Common Share Data			
Earnings Per Average Common Share	**$1.88**	$1.83	$1.75
Dividends Paid Per Common Share	**$1.28**	$1.24	$1.15
Book Value Per Share (Year-End)	**$14.76**	$14.06	$13.37
Market Price (Year-End)	**20 7/8**	16 1/4	19 1/2
Common Shares Outstanding (Year-End)	**4,330**	4,268	4,205
Number of Common Shareholders of Record (Year-End)	**2,449**	2,496	2,556
Operating Data			
Electric Sales (MWH)	**1,401,292**	1,358,165	1,302,848
Electric Customers (Year-End)	**88,316**	86,782	85,383
Firm Gas Sales (000's of Therms)	**22,303**	23,057	22,763
Gas Customers (Year-End)	**14,846**	15,012	15,340
Number of Employees	**324**	316	317

Earnings/Dividends Per Share



Capital Structure



Unitil

Unitil at a Glance

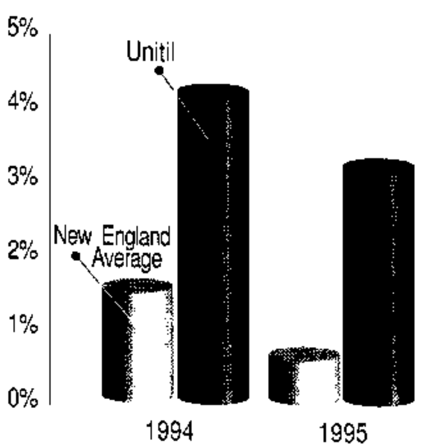
Market Share

The buzz about increasing competition in our industry goes on unabated. To continue growing in the right direction, Unitil has developed a strategic plan that ties together many of the elements of a restructured industry dominated by customer choice.

Today the Unitil System serves just over 1% of the market for electricity in the six-state New England region. From the perspective of emerging opportunities in our region, we see the New England energy market offering prospects for significant new growth.

Unitil has a uniquely successful history of maximizing opportunity and minimizing risk, while at the same time producing consistently high levels of shareholder benefits. We believe this is the formula for success in a competitive market.

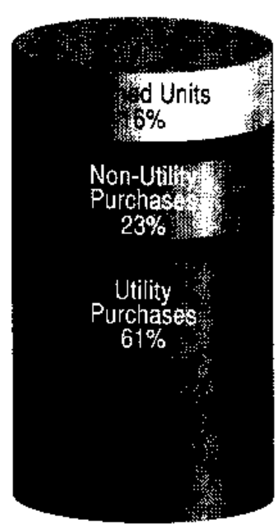
Electric Sales Growth



Market Approach

The combined electrical resource portfolio of the Unitil System is comprised of a variety of generation sources, including owned generation, utility purchased power contracts and purchases from non-utility generators. Our portfolio approach has allowed us to seek out the best wholesale terms and prices, while at the same time, retaining the flexibility to realign our resources quickly in response to a changing market. In both our electric and gas operations, Unitil has been optimizing the benefits of a market-based approach to energy supply by pursuing extensive solicitation, bidding and negotiation programs.

Sources of Capacity

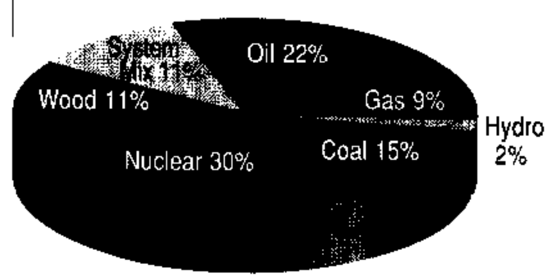


Energy Diversity

Among the factors that promote stable growth, our versatile electric supply portfolio has ongoing benefits to our utility operations. Unitil is not dependent on a single power source. In fact, we purchase power from many types of power generators — large and small, oil-fired, coal, nuclear, wood, hydro and natural gas.

Long-term contracts also provide stability, while shorter-term contracts allow for responsiveness to changes in market conditions. Multiple sources assure minimal impact from the unpredictable.

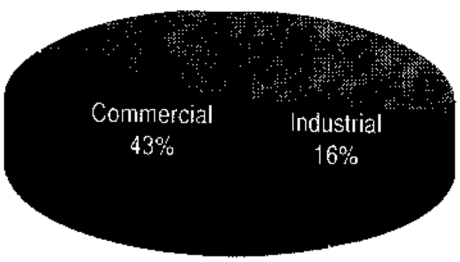
Fuel Mix



Customer Mix

In our energy supply and distribution business, Unitil serves a diverse and stable mix of gas and electric customers. In New Hampshire our service areas extend from the State House to the seacoast, providing electric service to residential, commercial and industrial customers, including facilities for all major state government services. In Massachusetts, we provide electric and gas services to a healthy mix of residential communities, commerce and industry.

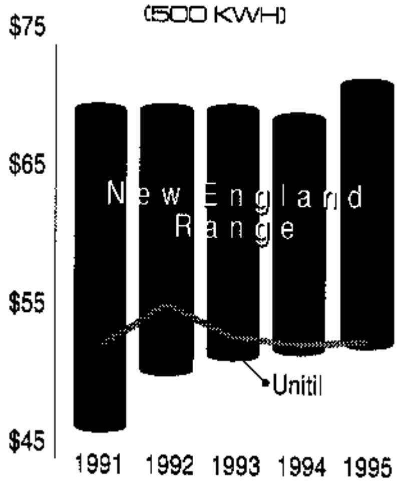
Electric & Gas Customers
(% of Revenue)



Low-Cost Services

Unitil is a low-price leader in New England. As demonstrated by the benchmark Residential 500 KWH index, Unitil has outperformed both the industry average and our New England utility peer group, as a low-cost provider of electricity.

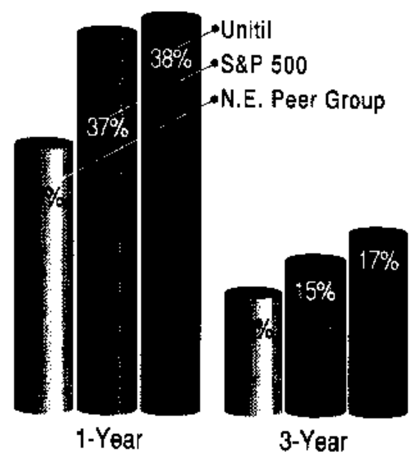
Average Monthly Residential Bill
(500 KWH)



Shareholder Return

Unitil has consistently outpaced both our New England utility peer group and the S&P 500 in annual rates of return to our shareholders.

Average Annual Total Returns*



*Includes reinvestment of dividends

To Our Shareholders

t is a pleasure to give you this year's report on the results of the operations of your company. "Growth" seems to be the key word which best characterizes the environment surrounding the Unitil System of companies. Growth in energy sales, earnings and competitiveness are arising out of the development of new ideas and the exploitation of new opportunities. The end result of this growth this past year was an increase of over 38% in the value of your investment in Unitil — the highest among electric utilities in New England.

Another Successful Year

Looking back over the last year, 1995 shows itself as a good year for Unitil on many levels. Our management reorganization took hold, as we added new people who have given us added capability and depth. With the intent of strengthening our infrastructure and increasing productivity, we are implementing new state-of-the-art operating systems and have accomplished major upgrades in desktop hardware across the System and network servers in each of our operating locations, and even ended the year with a seamless mainframe computer upgrade.

As we invested in our infrastructure, 1995 produced higher earnings and lower costs to our customers yet again for the third consecutive year. Our strong competitive position helped produce a growth rate in sales that was over five times greater than the New England regional average.

The Year Ahead

The new year provides continued opportunity and challenge, as the states in our region further develop competitive models for the restructuring of the electric utility industry. In New Hampshire, for example, a pilot program which will provide choice of supplier to 3% of the state's electric customers is being prepared for implementation, and legislation is under active consideration to ultimately provide choice to all New Hampshire customers. We have supported, and will continue to actively support, these efforts.

Peter J. Stulgis   Charles H. Tenney II

Managing and delivering competitively priced, market-based energy supplies to our customers for over a decade has put us "ahead of the curve" in our industry and allowed us to pioneer innovative growth products such as *Energy Bank™*. The *Energy Bank™* promotes economic development in our service areas by providing power to new and expanding industries at prices which are up to 40% less than the current New England average industrial rate. *Energy Bank™* has recently been approved in both Massachusetts and New Hampshire, and we have already added substantial new load for the coming year under this program.

We are investing some of the earnings from this new growth in the development of additional products designed to secure and expand our market share. This next generation of product will be designed to provide universal service across all classes of customers and will be introduced as competitive opportunities arise from the industry restructuring efforts currently underway. As we move into new markets for our products, we believe that growth in ideas, people and infrastructure will lead to continued growth in earnings and returns to you, our shareholders.

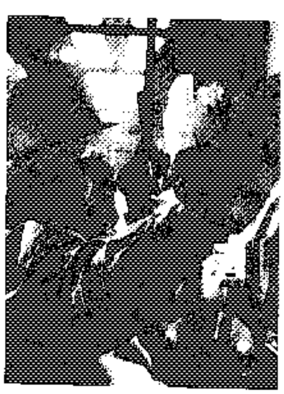
Peter J. Stulgis
Chairman of the Board of Directors
Chief Executive Officer

Charles H. Tenney II
Chairman of the
Executive Committee

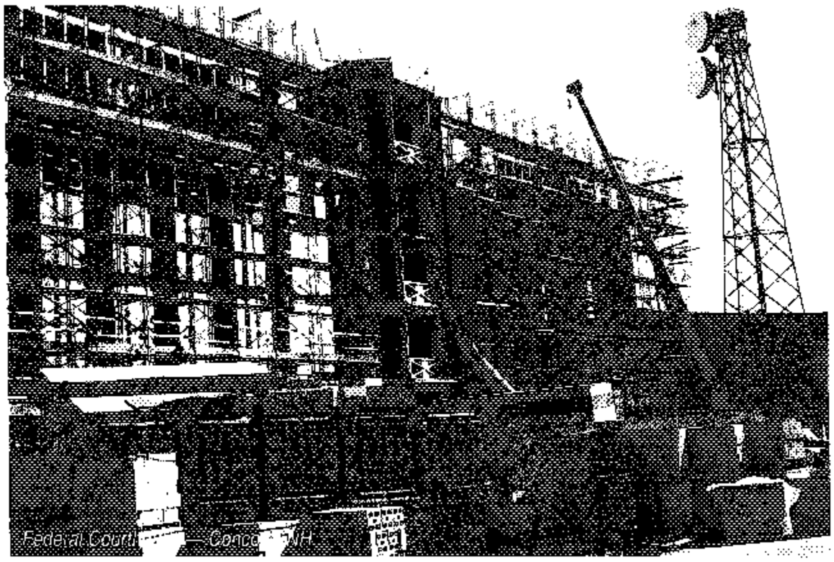
Building Value Through Growth

There is plenty of fertile ground in New England — lots of room to grow. The much anticipated era of deregulation in the retail electric industry has arrived. With it has come a radically new business environment and, for the first time in the history of our industry, opportunities for growth outside the regulated franchise. For some, changes of this sort have begun sooner than expected; these companies may not be able to respond to the opportunities. For others, it brings a wealth of new prospects. Unitil is well prepared, strongly positioned and moving ahead in the execution of an aggressive strategy for growth.

Occupying the geographic center of the six-state New England region, the Unitil System is in a good place to provide energy and energy services to a widening market.



As opportunities arise, we will grow . . . because what we do, we do very well. Unitil has a track record, both long-term and consistent, of offering reliable energy services at prices that are among the lowest in our region. The System's operating companies have cut their average prices to consumers in each of the last three years and we expect to do it again in 1996. But even with some of the lowest prices in New England, our sales base, revenues, net income and earnings are all growing and our annual rate of return to shareholders has consistently outpaced both our New England utility peer group and the stock market average for our industry. Furthermore, in keeping with our historically sound financial management practices, we have a healthy ratio of earnings to dividends and a solid capital structure to support our growth.

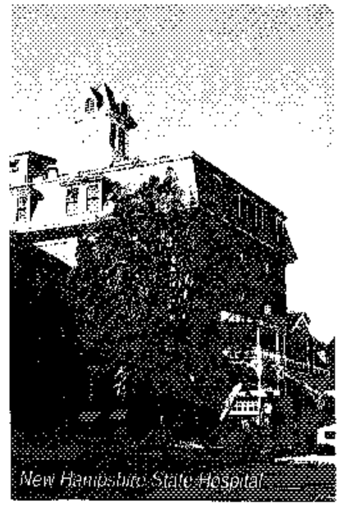


This is only the beginning. We will grow because we are proven experts in the acquisition of energy and its retail distribution. Our power supply, acquired in a broad, competitive energy market, is diverse, flexible, well-balanced, responsive and secure. Our customer mix is diversified and stable. Innovative price initiatives are in place that are attracting new industrial customers and supporting existing customers in their expansion efforts. And unique to these initiatives, they are designed to benefit, not just the large users, but all the System's customers, by providing economic development in their communities and price stability on their own electric bills.

These are the powerful ingredients for growth that are at work today. Tomorrow's opportunities are already opening, so that we can do more of the same in new markets all around us.

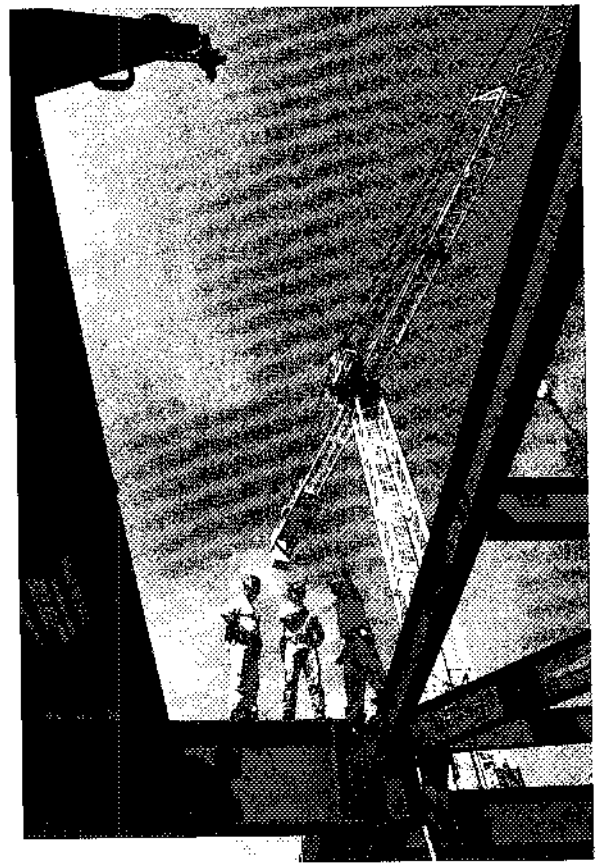
Building Value Through the Strengths of Our Energy Distribution Business Unitil is in the business of providing reliable energy services at the lowest possible cost. As we succeed in this objective, we will add to our customer base. During 1995, while the average growth rate of all other investor-owned electric utilities in our region was a lackluster 0.6 percent, sales growth of Unitil's core customer base led the region at a relatively robust 3.2 percent. Moreover, Unitil's rate of growth has consistently exceeded the average for New England. We believe this growth is, in part, a product of our ability to keep our prices low.

Throughout our lengthy history, we have provided reliable energy services to diverse and dynamic regions. In New Hampshire, we serve the state's capitol city and a dozen surrounding communities - some 240 square miles of the Merrimack River Valley. This is where our growth begins — in core business segments such as this one in the center of New Hampshire. At the confluence of six major state and interstate highways, it is a mix of state and federal government facilities; expanding professional, commercial and manufacturing centers; and vibrant residential communities. Recent growth in this region includes a new federal courthouse complex, now nearing completion, and the sprawling campus of New Hampshire State Hospital, which is being renovated and jointly used as state office space. A growing population has also led to expansions and new construction in both elementary and secondary school facilities throughout the area.


New Hampshire State Hospital

In the southeastern part of New Hampshire, the Unitil System serves a major segment of the seacoast region. It includes all or part of 16 communities, several sharing their southern border with Massachusetts. This diverse service territory occupies about 170 square miles and includes growing commercial and industrial zones; bustling seasonal resort communities; and historic, well-rooted, year-round residential neighborhoods. Signs of economic growth abound. More and more customers are coming on line — both private residences and worldwide industry and the commerce that serves them both. A good place to live and a good place to visit, this service area offers easy access via three major highways to the Greater Boston metropolitan area and the many recreational sites of New England.

In Massachusetts we provide both electricity and natural gas to a 170-square-mile area of the Nashua River valley in the north-central part of the state. This is a region whose manufacturing heritage is known around the world. Proximity to large commercial markets and prime transportation networks, as well as the availability of a skilled labor force, make it one of the fastest-growing regions of the state — most attractive to industry. As the area's strong, diversified economic base reflects the health of its commerce and industry, housing starts are once again rebounding. Still more industrial and commercial construction is flowing into this area, recently rated 25th of the top 300 places to live in the United States.



Such fundamental growth gives witness to the effectiveness of Unitil's energy pricing, distribution management and professional services. In every instance, whether government, residential, industrial or commercial, our customers drive our business. In striving to meet the special needs of each customer group, we have succeeded in maintaining the balance between keeping energy affordable and making certain it is available when and where it is needed.

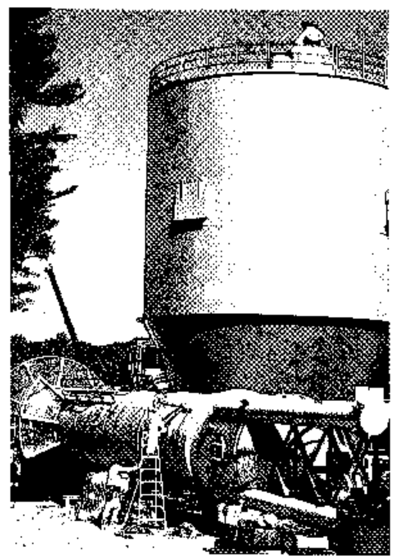
But beyond the ability to deliver dependable services at low prices to a diverse customer base, the ultimate strength of our Company is being "easy to do business with."

We will build on that strength. In 1996, we will bring into service a new, comprehensive customer information system that will speed up access to customer data, simplify work order management and enhance on-line services to customers. It will improve the way we deliver existing services; will easily accommodate new business services; and will employ technologies for growth, such as relational database design, linkage to corporate systems, tracking of customer contacts and global access to data. When customers have a choice, they will choose the supplier that best meets their needs. We believe that good service is the *only* way to establish and maintain customer confidence and loyalty.

Growing Through Innovative Services

Although it is only the beginning of new, competitive opportunities for growth, these opportunities are in fact emerging. Accordingly, the Unitil System is designing its services and pricing its products to be the supplier of choice. We are actively involved with regulators and legislators to promote concepts of choice for all customers, and we are working with customers to provide service packages tailored to their special needs. In doing so, we have attracted new customers and helped open the door to whole new competitive markets. In the coming years, we will focus increased attention on these emerging growth markets, applying the same principles here that have already proven highly successful in our other operations.

Unitil's *Energy Bank™* initiative is one step in that direction. Among the newest of the Company's pioneering products, *Energy Bank™* is directed towards new or expanding industrial customers who are creating jobs and making long-term productive investments in our local communities. Through *Energy Bank™*, eligible customers can receive both market-priced electricity and hour-by-hour billing at an average price of about 5¢ a kilowatt-hour. Equal in price to the national average industrial rate, this product meets the special requirements of large power users. Furthermore, its benefits extend to all System customers through increased local economic development; reductions in their power costs; and Power Dividend credits, issued once a year to each of our customers.



Unitil is the only energy services company in our region to make 5¢ power available to industrial customers on a universal basis. Regulatory approval of the *Energy Bank™* program is now secured, and the way is open in both Massachusetts and New Hampshire for the Unitil System to advance this groundbreaking product to the marketplace.

Already the *Energy Bank™* pricing concept has been applied to both new and existing customers. For example, Unitil has begun providing energy under this concept to Optima Corporation, a long-term Massachusetts-based industrial customer.

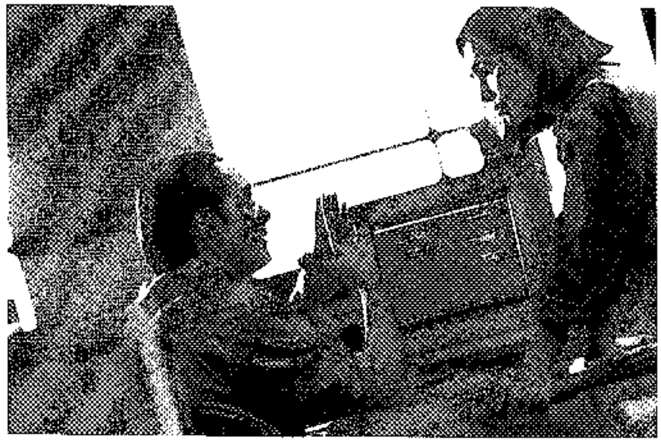
University of New Hampshire Ice Hockey

The innovative rate makes it possible for Optima to remain competitive in its operations, and also to expand its service, effectively doubling its existing electric load.

Massachusetts Recycling Associates (MRA) is a new customer that will also be receiving power based on *Energy Bank™* pricing. This state-of-the-art paper recycling complex will come on line early this year with a new 17 megawatt load at market-driven prices. Unique to the agreement with this customer is not only the special price structure, but also the fact that MRA cogenerates a portion of its own power, which we then ship across our wires to the plant — a cooperative approach with manifest efficiency and environmental benefit.

Seeking Out Opportunities In New Markets

As in other parts of the country, the electric utility industry in New England is taking on a new look. With the belief that competition will lead to lower prices, consumers are calling for change. Government and industry leaders more and more are looking for responses to that call, and this presents Unitil an opportunity for growth in new markets that are beginning to emerge. Already a low-price leader, we have begun to increase our marketing activities to expose our innovative products and excellent service to a much broader market than ever before.



We bring to this marketplace our consistent performance as a low-cost energy provider, our track record for reliable electrical service, the strength of a diverse and stable customer mix, our highly flexible portfolio approach to energy supply, a leadership position in the growth of our customer base, customer information systems that are state-of-the-art. And we bring revenue growth, earnings growth and consistently high rates of return to shareholders. These are signs of our readiness, and our commitment, to being competitive in every aspect of our business.

We are a full-service energy provider, a full-service professional energy consultant, a full-service energy distribution manager. As the doors open to new growth opportunities across New England, we are committed to being the provider of choice — for all customers.

As our story continues to unfold, we want to stay in touch with you. On the Internet, our home page address is http://www.unitil.com. Our central e-mail address is corp@unitil.com. Look for us there, whenever you want the latest information about Unitil System companies.

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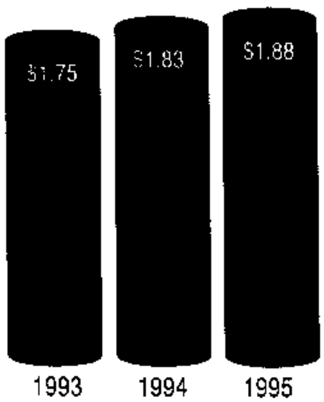
Management's Discussion

& Analysis of Financial Condition & Results of Operations

Earnings and Dividends

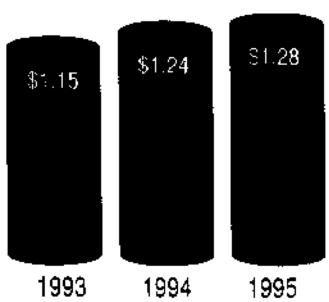
Unitil's earnings were $1.88 per common share for the year ending December 31, 1995, an increase over 1994's record earnings per share of $1.83 and 1993's record earnings per share of $1.75. The average return on common equity in 1995 was 13.1%. 1995's earnings performance primarily reflects increased electric base revenue from higher energy sales by Unitil's retail operating companies, as well as the continued ability to effectively manage and control the System's operating costs.

Earnings Per Share



In 1995, Unitil continued its history of steadily increasing its dividend. Common stock dividends in 1995 were $1.28 per share, an increase of 3.2% over 1994's annual dividend and a dividend payout ratio of 68%. At its January 1996 meeting, the Unitil Board of Directors increased the quarterly dividend by 3.1% to $0.33 per share, resulting in the current effective annualized dividend of $1.32 per share.

Dividends Per Share



Year In Review

The System's total electric base revenue was up by 2.5% in 1995, due to an overall increase in kilowatt-hour sales and kilowatt billing demands of 3.2% and 4.4%, respectively. This increase was mainly due to continuing growth in the demand for energy by the System's largest industrial and commercial customers. In 1995, kilowatt-hour sales grew by 7.9% to this group of customers. In addition, extreme seasonal weather patterns in 1995 also played a significant role in sales to the more weather-sensitive residential and commercial customer groups. In the third quarter, electric sales used for cooling purposes were supported by one of the hottest third quarters on record in New England. In contrast, there was a significant decline in weather-sensitive energy sales in the first quarter of the year, during one of the mildest heating seasons in 30 years. The weather in this quarter, as measured by heating degree days, was 16% warmer than the same period last year. As a result, electric kilowatt-hour sales to residential customers, whose usage was impacted most by the mild first quarter, remained relatively unchanged from the prior year.

The following table details total kilowatt-hour sales in each of the last three years by customer group:

KWH Sales (000's)

	1995	1994	1993
Residential	**507,233**	507,071	495,395
Commercial	**381,292**	374,769	375,413
Large Commercial/Industrial	**500,945**	464,357	419,989
Other Sales	**11,822**	11,968	12,053
Total KWH Sales	**1,401,292**	1,358,165	1,302,848

The mild winter in the first quarter of 1995 also had a negative impact on gas sales for the year. In 1995, gas base revenue decreased by 3.3%, due to lower gas firm therm sales compared to the prior year. The bulk of the decrease in firm therm sales was caused by a decrease of more than 6% in sales to residential customers, reflecting the extremely mild winter heating season. The following table details total firm therm sales in each of the last three years by customer group:

Firm Therm Sales (000's)

	1995	1994	1993
Residential	**12,523**	13,345	13,399
Commercial	**6,208**	5,892	5,642
Industrial	**3,572**	3,820	3,722
Total Therm Sales	**22,303**	23,057	22,763

With more normal winter weather, growth of both electric and gas sales in the first quarter of 1996 should show marked improvement over 1995. In addition, electric energy sales to industrial and commercial customers are also expected to continue to increase in 1996, as new businesses look to Unitil for their energy services and existing customers expand their operations.

In particular, the Company will be aggressively marketing its *Energy Bank™* program throughout 1996. *Energy Bank™* is an innovative economic development program designed to bring low-cost energy to new and expanding industrial customers. With rates in the range of 5¢/KWH, this program offers electric energy at a price that is equal to the National Average industrial rate and is 40% below the current average industrial rate in New England.

The System's operations-related costs (not including fuel, purchased power and conservation program costs, which are normally recovered from customers through periodic cost recovery adjustment mechanisms) were relatively unchanged in 1995 compared to 1994, reflecting the continued success of the Company's disciplined approach to cost management practices and procedures. Local property taxes increased 13.2% in 1995, compared to prior year levels, mainly reflecting annual property tax increases on utility property.

Operating Revenues

The following table compares the major components of Operating Revenues for 1995, 1994 and 1993.

Operating Revenue ($000's)

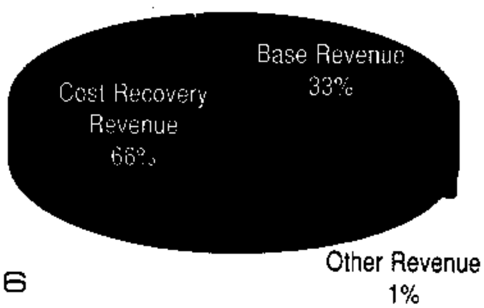
	1995	1994	1993
Base Electric Revenue	**$45,458**	$44,381	$43,406
Fuel & Purchased Power	**90,558**	88,103	88,001
Conservation Program Costs	**2,084**	1,613	1,348
Total Electric Revenue	**138,099**	134,097	132,755
Base Gas Revenue	**7,105**	7,348	7,332
Cost of Gas	**8,202**	9,935	10,066
Interruptible Revenue	**2,323**	1,412	1,088
Total Gas Revenue	**17,630**	18,695	18,486
Other Revenue	**941**	625	368
Total Operating Revenue	**$156,670**	$153,416	$151,609

Electric Operating Revenue increased by approximately $4.0 million, or 3%, in 1995 compared to 1994. Total electric operating revenue is comprised of electric base revenue, fuel and purchased power revenue, and conservation and load management program revenue. Fuel and purchased power revenue is collected from customers through the operation of periodic cost recovery adjustment mechanisms. Changes in this component of operating revenue do not affect net income, as they normally mirror corresponding changes in fuel and purchased power costs. Conservation and load management program revenue is also collected from customers through periodic cost recovery mechanisms, reflecting underlying changes in conservation and load management program costs. Electric base revenue is that portion of electric operating revenue that has a direct impact on net income. In 1995, electric base revenue rose by approximately $1.0 million. This 2.5% increase in electric base revenue was due to the continued growth in the System's electric energy sales to its customers.

In 1994, the System's electric operating revenue increased by approximately $1.3 million, or 1%, with the electric base revenue portion increasing by approximately 2.2%. This increase in electric base revenue in 1994 compared to 1993, was due to the growth in the System's total electric kilowatt-hour sales and kilowatt billing demands of 4.2% and 3.3%, respectively. Partially offsetting this comparative year-over-year increase in electric base revenue was the full-year impact of a voluntary base rate reduction that was implemented by the Company's Massachusetts retail operating subsidiary in December 1993.

Gas Operating Revenue decreased by about $1.1 million, or 5.7%, in 1995 compared to 1994. Gas operating revenue is comprised of three components: cost of gas revenue, interruptible revenue and gas base revenue. Cost of gas revenue is collected from customers through the operation of a cost of gas adjustment mechanism. Changes in this component of gas operating revenue do not affect net income as they reflect corresponding changes in gas supply costs. Interruptible revenue increased by about $900,000, an increase of more than 64%, due to very favorable spot market prices for gas in 1995. Margins earned on interruptible gas sales are used to lower rates to firm customers directly through the cost of gas adjustment mechanism, and do not directly impact the Company's net income. Gas base revenue is that portion of gas operating revenue that has a direct impact on net income. In 1995, gas base revenue decreased approximately $243,000, based on an overall decrease of 3.3% in firm therm sales, due to an extremely mild heating season.

Operating Revenue by Source



In 1994, total gas operating revenue increased by about $200,000, or 1%, as compared to 1993. Interruptible revenue increased more than 29%, reflecting an improvement in the competitive pricing of gas, a fuel choice for duel-fuel interruptible customers in 1994, as compared to 1993. Gas base revenue increased slightly in 1994, due to an increase of 1.3% in therm sales to firm customers. Partially offsetting this comparative year-over-year increase in gas base revenue was a full year of impact of a voluntary base-rate reduction that was implemented by the Company's Massachusetts retail operating subsidiary in December 1993.

Other Revenue of $940,954 in 1995 and $624,560 in 1994 was principally derived from Unitil Resources, the Company's energy consulting subsidiary, which began providing consulting services to non-affiliate companies in mid-1993. These consulting services have chiefly related to the provision of administrative, management and power brokering services. One of Unitil Resource's principal customers terminated its service agreement with the Company as of December 31, 1995, which will reduce Unitil Resource's contributions to earnings in 1996, unless new agreements are entered into to replace the revenue that was billed under this former agreement.

Operating Expenses

Fuel and Purchased Power reflects the cost of fuel used in electric generation and wholesale energy and capacity purchased to meet the Unitil System's electric energy requirements. Fuel and purchased power expenses (normally recoverable from customers through periodic cost recovery adjustment mechanisms) increased $2.0 million, or 2.2% in 1995 compared to 1994. The change reflects an increase in the System's total energy requirements in 1995, partially offset by a reduction in the average unit cost of the System's power supply portfolio. Power supply markets continued to be very competitive in 1995, providing many opportunities to achieve cost savings through active participation in the market and management of the System's resource portfolio. The combined resource portfolio of the Unitil System is comprised of a variety of power supply sources, including owned generation, utility-purchased power contracts and purchases from non-utility generators. The Unitil System's total energy supply resources for 1995 were comprised of: 16% from subsidiary-owned generation; 61% from various utility-purchased power contracts; 23% representing purchases from non-utility generation units.

In 1994 compared to 1993, fuel and purchased power expenses were relatively unchanged, reflecting favorable pricing of existing long-term power supply commitments and competitive short-term power supply markets.

Purchased Gas reflects gas purchased and made to supply the System's total gas energy requirements. Purchased Gas decreased by approximately $617,000, or 5.5%, in 1995 as compared to 1994. Significant decreases in gas prices due to favorable gas supply markets more than offset the 10.5% increase in therms purchased (including gas purchased for interruptible sales). Purchased Gas increased by almost $44,000, or 0.4%, in 1994 as compared to 1993, based on an increase of 7.2% in therms purchased, offset by a lower unit cost of gas. Purchased Gas is normally recoverable from customers through the cost of gas adjustment mechanism.

Under Order 636, the Federal Energy Regulatory Commission (FERC) has allowed gas pipeline suppliers to recover prudently incurred costs resulting from the transition into a deregulated environment. The Company's combination gas & electric utility operating subsidiary has been incurring FERC-approved transition charges from its natural gas pipeline supplier since 1992. Through the end of 1995, the amount of transition costs incurred by the Company totaled approximately $2,200,000. These costs are being recovered directly from gas customers through the cost of gas adjustment mechanism. On the basis of estimates included in rate filings before the FERC and other publicly available information, the Company currently estimates that it may incur up to an additional $1,200,000 of transition costs in future years. The Company expects full recovery of these costs through billings to customers.

Operation and Maintenance expense increased by about $900,000, or 4.2%, in 1995 compared to 1994. This increase primarily reflects higher conservation and load management program expenditures (which are recoverable from customers through periodic cost recovery mechanisms). In 1995, expenditures on this component of operation and maintenance expenses were over $2.1 million — a 30% increase over 1994's conservation and load management program expenditure level. Excluding these costs, the System's total operating and maintenance costs were relatively unchanged in 1995 compared to 1994. This performance primarily reflects the success of the Company's disciplined approach to cost management practices and procedures.

In 1994, Operation and Maintenance expense increased by almost $900,000, or 4.3%. Almost one-third of this increase in Operation and Maintenance was due to a 20% rise in expenditures on demand-side management and conservation programs during 1994, as compared to 1993. The remaining increase in 1994's Operation and Maintenance reflects modest overall growth of about $500,000, or 2.7%, in the System's operation and maintenance costs. The majority of this increase was due to extensive gas distribution system maintenance and repairs conducted in 1994.

Depreciation, Amortization and Taxes

Depreciation and Amortization expense increased more than 3% for both 1995 and 1994 over the prior year, due primarily to a higher level of plant in service.

Amortization of the Cost of Abandoned Properties principally relates to the abandonment of an investment in the Seabrook Nuclear Power Plant by the Company's Massachusetts retail operating subsidiary. A portion of the former investment in this project is being recovered in rates to electric customers, as allowed by the Massachusetts Department of Public Utilities.

Federal and State Income Taxes remained relatively unchanged in 1995 compared to 1994, despite an increase in net income before taxes of approximately $309,000, or 2.5%. This result primarily reflects nonrecurring tax benefits realized by the Company from a donation of land to the Park 2000 project in Fitchburg, Massachusetts, and the tax loss realized on the State of New Hampshire's taking by eminent domain of the Company's corporate headquarters in Exeter, New Hampshire. Federal and State Income Taxes increased by $462,000, or 12.5%, in 1994, due to higher net income before taxes of approximately $900,000.

Local Property Taxes increased $353,956, or 13.2%, in 1995. This increase mainly reflects the annual property tax increases set by local communities. Local Property taxes increased in 1994, compared to 1993, by 14.4%.

Non-Operating Expenses

For 1995, ***Non-Operating Expenses*** increased approximately $152,700, primarily reflecting a $141,000 non-operating loss, as a result of the State of New Hampshire's taking by eminent domain of the Company's corporate headquarters in Exeter, New Hampshire.

Interest Expense

Interest Expense, Net remained relatively unchanged in 1995 over 1994, as interest income and reduced short-term borrowing costs offset increased long-term debt-related interest costs. Higher long-term debt interest costs in 1995, compared to the prior year, reflect the conversion of short-term debt into long-term debt in late 1994 by the Company's New Hampshire retail operating subsidiaries.

Interest Expense decreased approximately 12% in 1994 compared to 1993, due primarily to the refinancing of long-term debt at lower interest rates. Also contributing to lower interest costs was the general decline in short-term borrowing costs during this period.

Capital Requirements and Liquidity

The Unitil System companies require capital for the acquisition of property, plant and equipment in order to improve, protect, maintain and expand their electric and gas operating systems. Capital necessary to meet these requirements is derived primarily from the Company's retained earnings and through the System's Dividend Reinvestment and Common Share Purchase Plan. When internally generated funds are not available, it is the Company's policy to borrow interim funds on a short-term basis to meet the capital requirements of its subsidiaries and, when necessary, to repay short-term debt through the issuance of permanent financing on an individual company basis. The size and timing of such financings depend on developments in the securities markets, the ability to meet certain financing covenants and the receipt of appropriate regulatory approval. The Company attempts to maintain a conservative capitalization structure, which contributes to both the stability of Unitil and its ability to market new securities. The Company has been able to access the financial markets to meet its capital requirements and does not anticipate a change in its access to, or the availability of, capital in the coming year.

Operating Activities ($000's)

	1995	1994	1993
Net Cash Provided by Operating Activities	**$17,018**	$16,349	$12,989

Cash flow from operations increased by $0.7 million in 1995, after increasing by $3.4 million in 1994. These larger cash flow balances in recent years reflect increased earnings by the Company and changes of its working capital requirements, as detailed in the Consolidated Statements of Cash Flows.

Investing Activities ($000's)

	1995	1994	1993
Net Cash Used in Investing Activities	**$12,645**	$8,943	$7,714

Cash flow from investing activities increased approximately $3.7 million in 1995, as a result of planned spending for utility system improvements, as well as the State of New Hampshire's taking by eminent domain of the Company's current headquarters and the associated commencement of construction of a new corporate headquarters. Total capital expenditures increased by $5.7 million in 1995, to $14.6 million, reflecting increased spending of approximately $2.3 million for normal utility system improvements and $3.4 million for the construction on a new corporate headquarters. These increases of capital expenditures were offset by proceeds of $2.0 million from the taking of the Company's corporate headquarters.

In February 1995, Unitil's corporate headquarters, located in Exeter, New Hampshire, was taken by the State of New Hampshire through eminent domain in connection with the State's Route 101 highway expansion project. While the impact of this transaction has been fully recognized in the financial results for 1995, Unitil is currently appealing the valuation placed upon its land and building by the State during the taking process and is seeking additional compensation. As a result of this taking, the Company purchased land in Hampton, New Hampshire, during 1995, and began construction of a new corporate headquarters, which is scheduled for completion during the summer of 1996.

In 1996, total capital expenditures are expected to approximate $18.9 million. This projection reflects capital expenditures of approximately $14.8 million for normal utility system expansions, replacements and other improvements and capital expenditures of approximately $4.1 million related to the completion of construction of the new corporate headquarters.

Financial Activities ($000's)

	1995	1994	1993
Net Cash Used in Financing Activities	**$4,785**	$5,301	$5,789

The change in cash flows from financing activities in 1995 compared to 1994 primarily reflects increases in the System's short-term borrowings and capitalized lease obligations at year end, as detailed in the Consolidated Statements of Cash Flows. Short-term borrowing requirements are met through Unitil's committed credit facilities with three different banks, which currently total $10 million.

No long-term debt was issued by any of the Unitil System companies during 1995. However, during both 1994 and 1993, Unitil's three retail operating companies completed private placements of long-term debt. The funds generated by these transactions were primarily used to repay the short-term indebtedness incurred by each System company to fund its ongoing construction programs, and to redeem higher-coupon long-term debt issues prior to their maturity. The impact of these transactions has been to lower the average cost of the System's long-term debt portfolio.

The Company does expect to undertake a long-term financing for Unitil Realty Corp. during 1996, following the completion of construction on the new corporate headquarters. The purpose of this financing will be to repay short-term debt incurred to finance construction of the building.

During 1995, the Company raised $1,009,499 of additional common equity capital through the issuance of 58,457 shares of common stock in connection with the Dividend Reinvestment and Tax Deferred Savings and Investment plans. The Company raised $1,037,809 of additional common equity capital in 1994 and $880,154 of additional equity capital in 1993, through the respective issuance of 58,229 and 46,291 shares of common stock in connection with these plans. The Company also issued shares during each of the years from 1993 through 1995, as a result of the exercise of options granted under the Company's Key Employee Stock Option Plan (KESOP). The total number of shares issued under the KESOP plan in 1995, 1994 and 1993 were 3,291 shares, 4,110 shares and 6,966 shares, respectively.

Regulatory Matters

At the state level in both New Hampshire and Massachusetts, and at the federal level, recent regulatory activity has focused on determining how to deregulate the retail sale of electricity to allow for a more competitive market. As the trend continues towards competition in the electric utility industry, Unitil has actively participated in industry, legislative and regulatory proceedings on the issues of competition and industry restructuring at both the federal and state levels, favoring a reasonable and orderly transition to competition and more choice for all customers.

Both the New Hampshire Public Utilities Commission (NHPUC) and the New Hampshire Legislature have been involved in discussions and analysis relative to competition in the industry. Early in 1995, the NHPUC issued an order in response to a petition by a power marketer seeking to sell to certain industrial customers of an investor-owned New Hampshire utility. In that order, the NHPUC ruled that utilities in New Hampshire do not have exclusive franchise territories as a matter of law and directed the marketer to seek a declaratory order from the Federal Energy Regulatory Commission regarding its proposed transactions. This decision has been appealed to the New Hampshire Supreme Court. In June 1995, New Hampshire Senate Bill 168 (SB 168), was signed into law. SB 168 establishes a legislative committee to consider changes in the structure of the electric utility industry. The act also directs the NHPUC to begin a retail competition pilot program and to act within five months to establish standards for utility discounts to industrial customers. The legislative committee and its subcommittees met regularly during the summer and fall of 1995. Several members sponsored new legislation, including legislation currently being debated that would require utilities to file restructuring plans with the NHPUC by June 1996, with state-wide retail competition by June 1998. The NHPUC has issued its preliminary guidelines for the retail competition pilot program, incorporating implementation by May 1996, and is expected to issue its final guidelines in March 1996. The NHPUC issued its final guidelines on discount rates for industrial customers in November 1995. The NHPUC approved the Company's *Energy Bank™* program in accordance with these guidelines in December 1995.

During 1995, the Massachusetts Department of Public Utilities (MDPU) concluded the initial hearings in an electric industry restructuring docket, and has issued an order requiring the three largest Massachusetts electric utilities to file restructuring plans in February 1996, and the remaining Massachusetts electric utilities (including FG&E) to file restructuring plans three months after the MDPU issues orders regarding the first three plans.

CECo, E&H and FG&E have all received regulatory approval for the Company's Energy Bank program. *Energy Bank™* is an innovative economic development program designed to bring low-cost energy to new and expanding industrial customers. With rates in the range of 5¢/KWH this program offers electric energy at a price that is equal to the national average industrial rate and is 40% below the current average industrial rate in New England. In addition to providing substantial benefits to new and expanding industrial customers in the form of very competitive and responsive market pricing, *Energy Bank™* will also provide significant benefits to all the System's customers in the form of local economic development activity, reduced power costs and lower costs to all customers through the issuance of Power Dividends.

The last formal regulatory hearings to increase base rates for Unitil's three retail operating subsidiaries occurred in 1985 for Concord Electric Company, 1984 for Fitchburg Gas and Electric Light Company and 1981 for Exeter & Hampton Electric Company. A majority of the System's operating revenues are collected under various periodic rate adjustment mechanisms including: fuel, purchased power, cost of gas and conservation program cost recovery mechanisms.

Environmental

The Company continues to work with federal and state environmental agencies to assess the environmental contamination in the vicinity of former gas manufacturing sites operated by Fitchburg Gas and Electric Light Company, the Company's combination gas and electric operating subsidiary. Based on information developed over the last several years, it has been discovered that there is environmental contamination at a former gas manufacturing plant in Fitchburg, MA (the Sawyer Passway site). In December 1995 the Company accepted a Tier 1B permit from the Massachusetts Department of Environmental Protection (DEP) to address the site, pursuant to the requirements of the Massachusetts Contingency Plan. Further investigations are necessary to assess the extent and nature of the contamination, and to evaluate potential remedies. Reports on those investigations are due to be filed with the DEP in early 1997. Because these investigations are at an early stage, management cannot, at this time, predict the costs of future analysis and remediation. The costs of such assessments and any remedial action determined to be necessary will initially be funded from traditional sources of capital and recovered from customers under a rate recovery mechanism approved by the MDPU. The Company also has a number of liability insurance policies that may provide coverage for environmental remediation at this site.

New Accounting Standards

Effective for fiscal years beginning after December 15, 1995, Statement of Financial Accounting Standards No. 121 (SFAS 121) "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of," will require the Company to review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. It is expected that the adoption of this standard will not have a material impact on the results of operations, financial condition or cash flows of the Company.

Effective for fiscal 1996, SFAS No. 123, "Accounting for Stock-Based Compensation," is required to be implemented. This statement provides the Company with the choice to continue with its current method of accounting for stock-based compensation or to adopt a new "fair value" method contained in SFAS No. 123. The Company expects to continue with its current method of accounting for stock-based compensation and to provide the SFAS No. 123 required disclosures in the notes to the financial statements.

Consolidated Statements of Earnings

	Year Ended December 31,		
	1995	1994	1993
Operating Revenues:			
Electric	**$138,099,371**	$134,096,627	$132,754,707
Gas	**17,629,879**	18,694,703	18,486,105
Other	**940,954**	624,560	368,010
Total Operating Revenues	**156,670,204**	153,415,890	151,608,822
Operating Expenses:			
Fuel and Purchased Power	**92,346,024**	90,342,737	90,485,320
Gas Purchased for Resale	**10,522,742**	11,139,311	11,094,848
Operation and Maintenance	**22,824,218**	21,903,619	21,010,303
Depreciation	**6,315,613**	6,129,617	5,949,072
Amortization of Cost of Abandoned Properties	**1,518,047**	1,605,640	1,528,873
Provisions for Taxes:			
Local Property and Other	**4,784,109**	4,384,032	3,779,459
Federal and State Income	**4,134,826**	4,156,479	3,694,573
Total Operating Expenses	**142,445,579**	139,661,435	137,542,448
Operating Income	**14,224,625**	13,754,455	14,066,374
Non-Operating Expenses	**216,860**	64,108	62,084
Income Before Interest Expense	**14,007,765**	13,690,347	14,004,290
Interest Expense, Net	**5,638,969**	5,652,148	6,404,222
Net Income	**8,368,796**	8,038,199	7,600,067
Less Dividends on Preferred Stock	**283,749**	291,543	297,577
Net Income Applicable to Common Stock	**$8,085,047**	$7,746,656	$7,302,490
Average Common Shares Outstanding	**4,298,752**	4,234,062	4,180,534
Earnings Per Average Common Share	**$1.88**	$1.83	$1.75

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

Consolidated Balance Sheets

ASSETS

	December 31,	
	1995	1994
Utility Plant:		
Electric	$148,458,414	$142,311,415
Gas	27,220,705	25,652,522
Common	8,494,093	9,783,183
Construction Work in Progress	6,003,991	1,029,681
Utility Plant	190,177,203	178,776,801
Less: Accumulated Depreciation	60,682,742	57,203,799
Net Utility Plant	129,494,461	121,573,002
Other Property & Investments	42,448	137,698
Current Assets:		
Cash	3,397,931	3,810,123
Accounts Receivable - Less Allowance for Doubtful Accounts of $622,596 and $573,849	14,931,699	13,281,686
Materials and Supplies	2,275,865	2,089,979
Prepayments	434,727	408,701
Accrued Revenue	2,577,715	2,292,297
Total Current Assets	23,617,937	21,882,786
Deferred Assets:		
Debt Issuance Costs	885,258	955,931
Cost of Abandoned Properties	27,254,791	28,772,838
Prepaid Pension Costs	6,689,093	5,801,714
Other Deferred Assets	23,718,296	25,397,492
Total Deferred Assets	58,547,438	60,927,975
TOTAL	$211,702,284	$204,521,461

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

CAPITALIZATION AND LIABILITIES

	December 31, 1995	December 31, 1994
Capitalization:		
Common Stock Equity	**$63,894,789**	$59,997,198
Preferred Stock, Non-Redeemable, Non-Cumulative	**225,000**	225,000
Preferred Stock, Redeemable, Cumulative	**3,773,900**	3,868,600
Long-Term Debt, Less Current Portion	**62,211,000**	65,288,231
Total Capitalization	**130,104,689**	129,379,029
Capitalized Leases, Less Current Portion	**3,732,947**	3,377,389
Current Liabilities:		
Long-Term Debt, Current Portion	**1,294,000**	292,090
Short-Term Debt	**2,700,000**	—
Accounts Payable	**14,565,075**	12,491,041
Dividends Declared and Payable	**170,796**	152,210
Refundable Customer Deposits	**2,237,851**	2,482,779
Taxes Accrued	**216,596**	(345,243)
Interest Accrued	**1,425,876**	1,376,477
Capitalized Leases, Current Portion	**741,832**	460,152
Accrued and Other Current Liabilities	**2,202,096**	2,546,878
Total Current Liabilities	**25,554,122**	19,456,384
Deferred Liabilities:		
Investment Tax Credits	**1,803,821**	2,006,168
Other Deferred Liabilities	**9,763,878**	9,212,872
Total Deferred Liabilities	**11,567,699**	11,219,040
Deferred Income Taxes	**40,742,827**	41,089,619
Commitments and Contingencies (Note 10)		
TOTAL	**$211,702,284**	$204,521,461

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

Consolidated Statements of Capitalization

	December 31, 1995	December 31, 1994
Common Stock Equity		
Common Stock, No Par Value (Authorized - 8,000,000 Shares: Outstanding - 4,329,585 and 4,267,837 Shares)	**$32,822,673**	$31,751,984
Paid in Capital - Stock Options (Note 2)	**1,299,177**	1,062,198
Retained Earnings	**29,772,939**	27,183,016
Total Common Stock Equity	**63,894,789**	59,997,198
Preferred Stock		
CECo Preferred Stock, Non-Redeemable, Non-Cumulative:		
6% Series, $100 Par Value	**225,000**	225,000
CECo Preferred Stock, Redeemable, Cumulative:		
8.70% Series, $100 Par Value	**215,000**	230,000
E&H Preferred Stock, Redeemable, Cumulative:		
5% Series, $100 Par Value	**98,000**	105,000
6% Series, $100 Par Value	**168,000**	175,000
8.75% Series, $100 Par Value	**344,300**	344,300
8.25% Series, $100 Par Value	**406,000**	436,000
FG&E Preferred Stock, Redeemable, Cumulative:		
5.125% Series, $100 Par Value	**1,076,600**	1,108,100
8% Series, $100 Par Value	**1,466,000**	1,470,200
Total Preferred Stock	**3,998,900**	4,093,600
Long-Term Debt		
CECo First Mortgage Bonds:		
Series C, 6.75%, Due January 15, 1998	**1,584,000**	1,584,000
Series H, 9.43%, Due September 1, 2003	**6,500,000**	6,500,000
Series I, 8.49%, Due October 14, 2024	**6,000,000**	6,000,000
E&H First Mortgage Bonds:		
Series E, 6.75%, Due January 15, 1998	**511,000**	518,000
Series H, 8.50%, Due December 15, 2002	**910,000**	1,015,000
Series J, 9.43%, Due September 1, 2003	**5,000,000**	5,000,000
Series K, 8.49%, Due October 14, 2024	**9,000,000**	9,000,000
FG&E Long-Term Notes:		
Twelve-year Notes, 8.55%, Due March 31, 2004	**15,000,000**	15,000,000
Thirty-year Notes, 6.75%, Due November 30, 2023	**19,000,000**	19,000,000
Unitil Realty Promissory Note:		
10.59%, Due October 25, 1998	**—**	1,963,321
Total Long-Term Debt	**63,505,000**	65,580,321
Less: Long-Term Debt, Current Portion	**1,294,000**	292,090
Total Long-Term Debt, Less Current Portion	**62,211,000**	65,288,231
Total Capitalization	**$130,104,689**	$129,379,029

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

Consolidated Statements of Cash Flows

	Year Ended December 31, 1995	1994	1993
Cash Flows From Operating Activities:			
Net Income	**$8,368,796**	$8,038,199	$7,600,067
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	**7,833,660**	7,735,257	7,477,945
Deferred Taxes	**(314,365)**	257,630	(333,569)
Amortization of Investment Tax Credit	**(202,347)**	(210,676)	(216,698)
Amortization of Debt Issuance Costs	**72,252**	63,882	118,602
Provision for Doubtful Accounts	**889,320**	717,735	837,589
Loss on Taking of Land and Building	**140,698**	—	—
Changes in Assets and Liabilities:			
(Increase) Decrease in:			
Accounts Receivable	**(2,539,334)**	(281,549)	(301,328)
Materials and Supplies	**(185,886)**	437,485	96,069
Prepayments and Prepaid Pension	**(913,405)**	(704,790)	(567,381)
Accrued Revenue	**(285,418)**	1,354,192	(174,327)
Increase (Decrease) in:			
Accounts Payable	**2,074,034**	(949,245)	1,501,166
Refundable Customer Deposits	**(244,928)**	744,325	(160,621)
Taxes and Interest Accrued	**611,238**	(396,700)	(791,986)
Other, Net	**1,713,521**	(456,528)	(2,096,725)
Net Cash Provided by Operating Activities	**17,017,836**	16,349,217	12,988,803
Cash Flows From Investing Activities:			
Acquisition of Property, Plant & Equipment	**(14,644,963)**	(8,943,491)	(7,713,542)
Proceeds from Taking of Land & Building	**2,000,000**	—	—
Net Cash Used in Investing Activities	**(12,644,963)**	(8,943,491)	(7,713,542)
Cash Flows From Financing Activities:			
Proceeds From (Repayment of) Short-Term Debt	**2,700,000**	(8,400,000)	3,620,000
Proceeds From Issuance of Long-Term Debt	—	15,000,000	19,000,000
Repayment of Long-Term Debt	**(2,075,321)**	(6,797,773)	(23,662,436)
Dividends Paid	**(5,760,286)**	(5,514,283)	(5,076,146)
Issuance of Common Stock	**1,070,689**	1,108,976	1,016,590
Retirement of Preferred Stock	**(94,700)**	(104,100)	(78,800)
Repayment of Capital Lease Obligations	**(625,447)**	(594,209)	(608,569)
Net Cash Used in Financing Activities	**(4,785,065)**	(5,301,389)	(5,789,361)
Net Increase (Decrease) in Cash	**(412,192)**	2,104,337	(514,100)
Cash at Beginning of Year	**3,810,123**	1,705,786	2,219,886
Cash at End of Year	**$3,397,931**	$3,810,123	$1,705,786
Supplemental Cash Flow Information:			
Interest Paid	**$5,942,933**	$5,518,586	$6,633,002
Federal Income Taxes Paid	**$3,435,000**	$4,141,527	$3,930,700
Non-Cash Financing Activities:			
Capital Leases Incurred	**$1,262,685**	$237,243	$206,502

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

Consolidated Statements of Changes in Common Stock Equity

	Common Shares	Deferred Stock Option Plan	Retained Earnings	Total
Balance at January 1, 1993	$29,626,419	$800,674	$22,180,481	**$52,607,574**
Net Income for 1993			7,600,067	**7,600,067**
Dividends on Preferred Shares			(297,577)	**(297,577)**
Dividends on Common Shares - at an Annual Rate of $1.15 Per Share			(4,803,095)	**(4,803,095)**
Stock Option Plan		177,425		**177,425**
Exercised Stock Options - 6,966 Shares	136,436	(67,207)		**69,229**
Issuance of 46,291 Common Shares (a)	880,154			**880,154**
Balance at December 31, 1993	30,643,009	910,892	24,679,876	**56,233,777**
Net income for 1994			8,038,199	**8,038,199**
Dividends on Preferred Shares			(291,543)	**(291,543)**
Dividends on Common Shares - at an Annual Rate of $1.24 Per Share			(5,243,516)	**(5,243,516)**
Stock Option Plan		180,475		**180,475**
Exercised Stock Options - 4,110 Shares	71,166	(29,169)		**41,997**
Issuance of 58,229 Common Shares (a)	1,037,809			**1,037,809**
Balance at December 31, 1994	31,751,984	1,062,198	27,183,016	**59,997,198**
Net Income for 1995			8,368,796	**8,368,796**
Dividends on Preferred Shares			(283,749)	**(283,749)**
Dividends on Common Shares - at an Annual Rate of $1.28 Per Share			(5,495,124)	**(5,495,124)**
Stock Option Plan		248,127		**248,127**
Exercised Stock Options - 3,291 Shares	61,190	(11,148)		**50,042**
Issuance of 58,457 Common Shares (a)	1,009,499			**1,009,499**
Balance at December 31, 1995	$32,822,673	$1,299,177	$29,772,939	**$63,894,789**

(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 2).

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

Notes
to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations — The Company is registered with the Securities and Exchange Commission (SEC) as a holding company (with subsidiaries providing electric service in New Hampshire, electric and gas service in Massachusetts and consulting services on energy-related matters) under the Public Utility Holding Company Act of 1935 (1935 Act), and it and its subsidiaries are subject to the provisions of the 1935 Act. In addition, the Company and several of its wholly-owned utility operating subsidiaries; Concord Electric Company (CECo), Exeter & Hampton Electric Company (E&H), Fitchburg Gas and Electric Light Company (FG&E) and Unitil Power Corp. (Unitil Power) are subject to regulation by various other agencies. With respect to their rates and accounting, two of the retail subsidiaries, CECo and E&H, are subject to regulation by the New Hampshire Public Utilities Commission (NHPUC); FG&E is subject to regulation by the Massachusetts Department of Public Utilities (MDPU); and Unitil Power is regulated by the Federal Energy Regulatory Commission (FERC). CECo, E&H, FG&E and Unitil Power conform with generally accepted accounting principles, as applied in the case of regulated public utilities, and conform with the accounting requirements and ratemaking practices of the regulatory authorities having jurisdiction.

Principles of Consolidation — Unitil Corporation (the Company) is the parent company of the Unitil System (the System). The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

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 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.

Depreciation — 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: 1995 - 3.48 percent; 1994 - 3.49 percent; and 1993 - 3.53 percent.

Amortization of Abandoned Properties — FG&E is recovering a portion of a former investment in the Seabrook Nuclear Power Plant in rates to its customers through a Seabrook Amortization Surcharge, as allowed by the MDPU.

Federal Income Taxes — Income taxes are accounted for in accordance with the Statement of Financial Accounting Standards No. 109 (SFAS No. 109) "Accounting for Income Taxes." Under SFAS No. 109, 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.

New Accounting Standards — Effective for fiscal years beginning after December 15, 1995, Statement of Financial Accounting Standards No. 121 (SFAS 121) "Accounting for the Impairment of Long-Lived Assets and For Long-Lived Assets to be Disposed of," will require a review of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. It is expected that the adoption of this standard will not have a material impact on the cash flows, financial condition or results of operations of the Company.

Effective for fiscal 1996, SFAS No. 123, "Accounting for Stock-Based Compensation," is required to be implemented. This statement provides the Company with the choice to continue with its current method of accounting for stock-based compensation or to adopt a new "fair value" method contained in SFAS No. 123. The Company expects to continue with its current method of accounting for stock-based compensation and to provide the SFAS No. 123 required disclosures in the notes to the financial statements.

Reclassifications — Reclassification of amounts are made periodically to previously issued financial statements to conform with the current year presentation.

Note 2: Common Stock

New Shares Issued — During 1995, the Company raised $1,009,499 of additional common equity capital through the issuance of 58,457 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan and Employee 401(k) Tax Deferred Savings and Investment 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. The Employee 401(k) Tax Deferred Savings and Investment Plan is described in Note 9 below. In 1994, the Company raised $1,037,809 of additional common equity capital through issuance of 58,229 shares of common stock in connection with these plans.

The Company maintains a Key Employee Stock Option Plan (KESOP), which provides for the granting of options to key employees. 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 the KESOP expire within 10 years of the grant date, and no option can be issued under the current plan after 1999. The KESOP also includes shares related to the FG&E option plan, which was merged into the KESOP upon the merger of FG&E into the Company. The plan provides for dividend equivalents on options granted, which are recorded as compensation expense. The total compensation expenses recorded by the Company with respect to this plan were $248,127, $180,475 and $177,425 for the years ended December 31, 1995, 1994 and 1993, respectively.

Share Option Activity of the KESOP is presented in the following table:

	1995	1994	1993
Beginning Options Outstanding & Exercisable	**147,981**	142,354	133,216
Options Granted	**17,000**	—	9,000
Dividend Equivalents Earned	**11,672**	9,737	8,404
Options Exercised	**(3,291)**	(4,110)	(6,966)
Options Canceled	**—**	—	(1,300)
Ending Options Outstanding & Exercisable	**173,362**	147,981	142,354
Range of Option Grant Price per Share	**$12.11-$14.93**	$12.11-$17.74	$12.11-$17.74

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 $5,402,238 and $8,031,846, respectively, available for the payment of cash dividends on their common stock at December 31, 1995. Under the terms of long-term debt Purchase Agreements, FG&E had $11,500,927 of retained earnings available for the payment of cash dividends on its common stock at December 31, 1995.

Note 3: 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 1995, 1994 and 1993 were: 1995 - $94,700; 1994 - $104,100; and 1993 - $78,800. The aggregate amount of sinking fund requirements of the redeemable Cumulative Preferred Stock for each of the five years following 1995 are $206,000 per year.

Note 4: Long-Term Debt

On October 14, 1994, CECo arranged for the private placement, at par, of $6,000,000 of 30-year Series I First Mortgage Bonds, bearing a fixed annual interest rate of 8.49% and maturing in 2024. The proceeds of this financing were utilized to repay short-term indebtedness and to redeem two higher-coupon long-term debt issues prior to their maturity. The redemptions included $930,000 of Series D First Mortgage Bonds, 8.70%, due November 15, 2001, and $1,500,000 of Series G First Mortgage Bonds, 9.85%, due October 15, 1997.

On October 14, 1994, E&H arranged for the private placement, at par, of $9,000,000 of 30-year Series K First Mortgage Bonds, bearing a fixed annual interest rate of 8.49% and maturing in 2024. The proceeds of this financing were utilized to repay short-term indebtedness and to redeem three higher-coupon long-term debt issues prior to their maturity. The redemptions included $1,235,000 of Series F First Mortgage Bonds, 8.70%, due November 15, 2001, $930,000 of Series G First Mortgage Bonds, 8.875%, due April 1, 2004, and $1,400,000 of Series I First Mortgage Bonds, 9.85%, due October 15, 1997.

Under the terms of CECo's Indenture of Mortgage and Deed of Trust and the supplemental indenture thereto relating to long-term debt, the sinking fund requirements of CECo's Series C Bonds may be satisfied by certifying to the Mortgage Trustee "net additional property" in lieu of making cash redemptions. In 1995 and 1994, CECo satisfied its requirements with respect to its Series C Bonds by certifying to the Mortgage Trustee "net additional property." In 1995, sinking fund payments relating to long-term debt amounted to $112,000. Certain of the loan agreements contain provisions which limit the incurrence of additional long-term debt.

The aggregate amount of sinking fund requirements and normal scheduled redemptions for each of the five years following 1995 are: 1996-$1,294,000; 1997-$1,294,000; 1998-$4,307,000; 1999-$2,290,000, and 2000-$2,290,000.

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, 1995 and 1994.

Note 5: Credit Arrangements

At December 31, 1995, the Company had unsecured committed bank lines for short-term debt aggregating $10,000,000 with three banks for which it pays commitment fees. At December 31, 1995, the unused portion of the committed credit lines outstanding was $7,300,000. The average interest rate on all short-term borrowings was 6.59%.

Note 6: Leases

The Company's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their operations 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. The equipment leases include a 25-year lease which began on April 1, 1973, for a combustion turbine and a liquefied natural gas storage and vaporization facility. This lease provides for a 10-year renewal period at the option of FG&E. In addition, Unitil's subsidiaries lease some equipment under operating leases. The following is a schedule of the leased property under capital leases by major classes:

Classes of Utility Plant	Asset Balances at December 31, 1995	1994
Electric	**$2,054,025**	$2,054,025
Gas	**726,329**	726,329
Common	**5,061,846**	3,816,643
Gross Plant	**7,842,200**	6,596,997
Less: Accumulated Depreciation	**3,367,421**	2,759,456
Net Plant	**$4,474,779**	$3,837,541

The following is a schedule by years of future minimum lease payments and present value of net minimum lease payments under capital and operating leases as of December 31, 1995:

Year Ending December 31,	Capital	Operating
1996	$1,087,343	$228,727
1997	846,578	258,369
1998	583,106	226,174
1999	559,785	190,618
2000	545,498	189,912
2001 - 2005	1,776,339	47,478
Total Minimum Lease Payments	$5,398,649	$1,141,278
Less: Amount Representing Interest	923,870	
Present Value of Net Minimum Lease Payments	$4,474,779	

Total rental expense charged to operations for the years ended December 31, 1995, 1994 and 1993 amounted to $447,000; $320,000; and $601,000, respectively.

Note 7: Income Taxes

On January 1, 1993, the Company adopted the provisions of SFAS 109. The adoption of SFAS No. 109 had no material effect on net earnings for 1993. Federal Income Taxes have been provided as shown below:

	Year Ended December 31, 1995	1994	1993
Current Federal Tax Provision			
Operating Income	**$3,959,976**	$3,497,311	$3,633,205
Amortization of Investment Tax Credits	**(202,347)**	(210,676)	(216,698)
Total Current Federal Tax Provision	**3,757,629**	3,286,635	3,416,507
Deferred Federal Tax Provision:			
Accelerated Tax Depreciation	**545,233**	590,655	528,500
Abandoned Properties	**(578,255)**	(611,620)	(582,378)
Allowance for Funds Used During Construction and Overheads	**(73,191)**	(73,192)	(73,192)
Post-Retirement Benefits Other Than Pensions	**(19,941)**	(27,162)	(25,238)
Deferred Maintenance Cost and Miscellaneous	**(86,178)**	(122,382)	(89,471)
Percentage Repair Allowance	**106,630**	145,927	139,424
Unbilled Fuel	**—**	—	(172,226)
Deferred Advances	**(482,112)**	26,967	(95,877)
Deferred Pensions	**289,622**	256,867	191,378
Total Deferred Federal Tax Provision	**(298,192)**	186,060	(179,080)
Total Federal Tax Provision	**$3,459,437**	$3,472,695	$3,237,427

The components of the Federal and State income tax provisions reflected in the accompanying consolidated statements of earnings for the years ended December 31, 1995, 1994 and 1993 were as follows:

	1995	1994	1993
Federal:			
Current	**$3,959,976**	$3,497,311	$3,633,205
Deferred	**(298,192)**	186,060	(179,080)
Amortization of Investment Tax Credits	**(202,347)**	(210,676)	(216,698)
Total Federal Tax Provision	**3,459,437**	3,472,695	3,237,427
State:			
Current	**691,563**	612,214	611,635
Deferred	**(16,174)**	71,570	(154,489)
Total State Tax Provision	**675,389**	683,784	457,146
Total Provision for Federal and State Income Taxes	**$4,134,826**	$4,156,479	$3,694,573

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:

	Year Ended December 31,		
	1995	1994	1993
Statutory Federal Income Tax Rate	**34%**	34%	34%
Income Tax Effects of:			
Investment Tax Credits	**(2)**	(2)	(2)
Donation of Appreciated Land	**(1)**	0	0
Federal Income Tax - Prior	**(1)**	0	(1)
Other, Net	**(1)**	(2)	(1)
Effective Federal Income Tax Rate	**29%**	30%	30%

At December 31, 1995, the Company has the following deferred tax assets and liabilities recorded for temporary differences which originated as a result of the application of the Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"; a regulatory asset of approximately $22,400,000 which is included in Other Deferred Assets; a regulatory liability of approximately $7,500,000 which is included in Other Deferred Liabilities; and additional deferred tax liabilities of approximately $14,900,000 which are included in certain of the amounts listed below. The major temporary differences which give rise to deferred tax assets and liabilities at December 31, 1995, are as shown below:

Deferred Income Taxes for the Year Ended December 31,		
	1995	1994
Accelerated Depreciation	**$23,971,624**	$23,526,226
Abandoned Property	**10,381,893**	10,960,148
Contributions in Aid to Construction	**(3,166,565)**	(2,626,042)
Percentage Repair Allowance	**1,599,813**	1,517,573
Cathodic Protection	**294,978**	253,863
Retirement Loss	**1,288,346**	1,121,792
Deferred Pensions	**2,303,456**	2,091,056
AFUDC	**78,878**	96,211
Overheads	**360,470**	420,896
KESOP	**(451,009)**	(361,080)
Bad Debts	**(235,785)**	(217,220)
Accumulated Deferred (SFAS 109)	**4,442,755**	4,475,182
Other	**(126,027)**	(168,986)
Total Deferred Income Taxes	**$40,742,827**	$41,089,619

Note 8: Joint Ownership Units

FG&E is participating, on a tenancy-in-common basis with other New England utilities, in the ownership of three generating units. New Haven Harbor is a dual-fired oil-and-gas station, and Wyman Unit No. 4 is an oil-fired station. They have been in commercial operation since August 1975 and December 1978, respectively. Millstone Unit No. 3, a nuclear generating unit, has been in commercial operation since April 1986. Information with respect to these units is set forth in the table below:

Joint Ownership Units	State	Proportionate Ownership %	Share of Total MW	Company's Share: Amount of Utility Plant in Service	Company's Share: Accumulated Depreciation
Millstone Unit No. 3	CT	0.2170	2.50	$11,595,060	$3,155,675
Wyman Unit No. 4	ME	0.1822	1.13	408,141	257,934
New Haven Harbor	CT	4.5000	20.12	7,065,274	4,802,423
			23.75	$19,068,475	$8,216,032

Kilowatt-hour generation and operating expenses of the joint ownership units are divided on the same basis as ownership. FG&E's proportionate costs are reflected in the Consolidated Statements of Earnings.

Note 9: Benefit Plans

Pension Plans — Four of the Company's subsidiaries have Retirement and Pension plans and related Trust Agreements to provide retirement annuities for participating employees at age 65. These subsidiaries follow the provisions of Statement of Financial Accounting Standards No. 87, "Employer's Accounting for Pensions" (SFAS 87). The entire cost of the plans is borne by the respective subsidiaries.

Net periodic pension (income) cost for 1995, 1994 and 1993 included the following components:

	1995	1994	1993
Service Cost — Benefits Earned During the Period	**$616,016**	$693,340	$645,226
Interest Cost on Projected Benefit Obligation	**1,811,981**	1,795,836	1,758,782
Expected Return on Plan Assets	**(6,412,405)**	(2,714,751)	(2,437,232)
Net Amortization and Deferral	**3,652,029**	(20,546)	(2,742)
Net Periodic Pension (Income) Cost	**$(332,379)**	$(246,121)	$(35,966)

The following table sets forth the plans' funded status at December 31, 1995, 1994 and 1993:

Projected benefit obligation:	**1995**	**1994**	1993
Vested	**$24,250,626**	$19,970,389	$19,971,230
Non-vested	**148,106**	331,910	149,810
Accumulated	**24,398,732**	20,302,299	20,121,040
Due to Recognition of Future Salary Increases	**3,837,798**	2,521,055	3,278,283
Total	**28,236,530**	22,823,354	23,399,323
Plan Assets at Fair Value	**32,858,602**	27,343,779	29,273,216
Funded Status	**4,622,072**	4,520,425	5,873,893
Unrecognized Net Loss (Gain)	**1,736,643**	953,653	(1,181,666)
Unrecognized Prior Service Cost	**124,718**	138,204	151,690
Unrecognized Transition Obligation	**205,660**	189,432	173,204
Prepaid Pension Cost	**$6,689,093**	$5,801,714	$5,017,121

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 1995, 1994 and 1993 were 7.75%, 8.25% and 7.75%, respectively, while the rate of increase in future compensation levels was 4.50 %, 4.50% and 4.50%, respectively. The expected long-term rate of return on assets was 9.50% in each of the years 1995, 1994 and 1993.

Effective January 1, 1987, Unitil Service Corp. adopted 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 $60,000; $53,000; and $53,000 for the years ended December 31, 1995, 1994 and 1993, 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 from 1% to 12% of current compensation to the plan. The Company matches contributions, with a maximum matching contribution of 3% of current compensation. Employees may direct the investment of their savings plan balances into a variety of investment options, including a Company common stock fund. Participants are 100% vested, once completing three years of service, in contributions made on their behalf. The Company's share of contributions to the plan were $301,486; $284,248; and $266,645 for the years ended December 31, 1995, 1994 and 1993, respectively.

Post-Retirement Benefits — Effective as of January 1, 1993, the Company's subsidiaries significantly modified the duration of post-retirement health care benefits. From that date forward, all current retirees were offered such benefits only for an additional 12-month period and all future retirees will be entitled to such benefits for a 12-month period following their retirement. The Company's subsidiaries continue to provide life insurance coverage to retirees by making monthly premium payments to a life insurer. Life insurance and limited health care post-retirement benefits required the Company to adopt the provisions of Statement of Financial Accounting Standard No. 106, "Employers' Accounting for Post-retirement Benefits Other than Pensions" — (SFAS 106). For 1995 and 1994, the costs associated with providing health care and life insurance benefits under this arrangement were $86,522 and $82,625. This statement requires accrual accounting for 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, 1995 and 1994, the accumulated post-retirement benefit obligation (transition obligation) was approximately $364,000 and $385,000, respectively, under SFAS 106. 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. The Company has omitted certain disclosures relating to SFAS 106, as the accumulated post-retirement benefit obligation (transition obligation) is not material.

Note 10: Commitments and Contingencies

Environmental Matters — The Company continues to work with federal and state environmental agencies to assess the environmental contamination in the vicinity of former gas manufacturing sites operated by Fitchburg Gas and Electric Light Company, the Company's combination gas and electric operating subsidiary. Based on information developed over the last several years, it has been discovered that there is environmental contamination at a former gas manufacturing plant in Fitchburg, MA (the Sawyer Passway site). In December 1995, the Company accepted a Tier 1B permit from the Massachusetts Department of Environmental Protection (DEP) to address the site, pursuant to the requirements of the Massachusetts Contingency Plan. Further investigations are necessary to assess the extent and nature of the contamination, and to evaluate potential remedies. Reports on those investigations are due to be filed with the DEP in early 1997. Because these investigations are at an early stage, management cannot, at this time, predict the costs of future analysis and remediation. The costs of such assessments and any remedial action determined to be necessary will initially be funded from traditional sources of capital and recovered from customers under a rate recovery mechanism approved by the MDPU. The Company also has a number of liability insurance policies that may provide coverage for environmental remediation at this site.

Regulatory Matters — At the state level in both New Hampshire and Massachusetts, and at the federal level, recent regulatory activity has focused on determining how to deregulate the retail sale of electricity to allow for a more competitive market. As the trend continues towards competition in the electric utility industry, Unitil has actively participated in industry, legislative and regulatory proceedings on the issues of competition and industry restructuring at both the federal and state levels, favoring a reasonable and orderly transition to competition and more choice for all customers.

Both the New Hampshire Public Utilities Commission (NHPUC) and the New Hampshire Legislature have been involved in discussions and analysis relative to competition in the industry. Early in 1995, the NHPUC issued an order in response to a petition by a power marketer seeking to sell to certain industrial customers of an investor-owned New Hampshire utility. In that order the NHPUC ruled that utilities in New Hampshire do not have exclusive franchise territories as a matter of law, and directed the marketer to seek a declaratory order from the Federal Energy Regulatory Commission regarding its proposed transactions. This decision has been appealed to the New Hampshire Supreme Court. In June 1995, New Hampshire Senate Bill 168 (SB 168) was signed into law. SB 168 establishes a legislative committee to consider changes in the structure of the electric utility industry. The act also directs the NHPUC to begin a retail competition pilot program and to act within five months to establish standards for utility discounts to industrial customers. The legislative committee and its subcommittees met regularly during the summer and fall of 1995. Several members sponsored new legislation, including legislation currently being debated that would require utilities to file restructuring plans with the NHPUC by June 1996, with statewide retail competition by June 1998. The NHPUC has issued its preliminary guidelines for the retail competition pilot program, incorporating implementation by May 1996, and is expected to issue its final guidelines in March 1996. The NHPUC issued its final guidelines on discount rates for industrial customers in November 1995. The NHPUC approved the Company's *Energy Bank™* program in accordance with these guidelines in December 1995.

During 1995, the Massachusetts Department of Public Utilities (MDPU) concluded the initial hearings in an electric industry restructuring docket and has issued an order requiring the three largest Massachusetts electric utilities to file restructuring plans in February 1996, and the remaining Massachusetts electric utilities (including FG&E) to file restructuring plans three months after the MDPU issues orders regarding the first three plans.

CECo, E&H and FG&E have all received regulatory approval for the Company's *Energy Bank™* program. *Energy Bank™* is an innovative economic development program designed to bring low-cost energy to new and expanding industrial customers. With rates in the range of 5¢/KWH this program offers electric energy at a price that is equal to the national average industrial rate and is 40% below the current average industrial rate in New England. In addition to providing substantial benefits to new and expanding industrial customers in the form of very competitive and responsive market pricing, *Energy Bank™* will also provide significant benefits to all the System's customers in the form of local economic development activity, reduced power costs and lower costs to all customers through the issuance of Power Dividends.

The last formal regulatory hearings to increase base rates for Unitil's three retail operating subsidiaries occurred in 1985 for Concord Electric Company, 1984 for Fitchburg Gas and Electric Light Company and 1981 for Exeter & Hampton Electric Company. A majority of the System's operating revenues are collected under various periodic rate adjustment mechanisms including: fuel, purchased-power, cost of gas and conservation program cost recovery mechanisms.

Litigation — The Company is also involved in other 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.

Purchased Power and Gas Supply Contracts — FG&E and Unitil Power have 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 Electricity and Gas Purchased for Resale in the Consolidated Statements of Earnings. These costs are normally recoverable in revenues under various cost recovery mechanisms.

The status of the electric purchased power contracts at December 31, 1995, was as follows (next page):

Unit Fuel Type (1)	1995 Energy MW Entitlement		Purchased (MWH's)	Contract End Date	Est. Annual Min. Payments Which Cover Future Debt Service Reqs. ($000)	
			Non-Utility Purchases			
Unitil Power						
Refuse	6.0	[2]	45,546	2003	None	
System	9.5	[7]	2,368	1995	None	
System	9.5	[7]	2,047	1995	None	
Gas	1.5		7,558	2012	None	
Coal	20.0		68,156	2009	None	
System	18.3	[8]	804	2002	None	
FG&E						
Wood	14.0		99,659	2012	None	
Hydro	3.0		18,328	2012	None	
			Utility Purchases			
Unitil Power						
Nuclear	25.5		185,505	1998	None	
Oil/Gas	23.0		52,797	1998	None	
Hydro	8.9			2001	$1,080	[3]
Various	16.0	[2]	44,426	1999	None	
Coal/Oil	15.0	[2]	65,837	2005	None	
Oil/Gas	25.0		86,309	1996	None	
Gas	12.0	[2]	56,750	2010	$2,776	[4]
Nuclear	3.0	[2]	7,092	2005	None	
Nuclear	2.0	[2]	4,307	2005	None	
Coal/Oil	9.3	[2]	23,362	2005	None	
Nuclear	1.9	[2]	18,035	2013	None	
Nuclear	10.0		72,881	2010	None	
Oil	5.0	[2]	11,994	2005	None	
Oil	5.0	[2]	12,766	2005	None	
System	8.0		12,777	1996	None	
Oil/Gas	10.0	[2]	8,607	2008	None	
Various		[5]	66,959		None	
Various		[6]	171,770		None	
FG&E						
Nuclear	10.0		74,780	1996	None	
Hydro	2.1			1996	$73	[3]
Hydro	3.2			2001	$426	[3]
Oil/Gas	20.0		69,445	2015	None	
System	15.0	[2]	27,582	2001	None	
Various		[5]	86,048		None	
Various		[6]	108,967		None	

Notes:

[1] Total Annual Cost of Purchase Power Contracts are included on Consolidated Statement of Earnings.
[2] Capacity amounts vary over time. Represents maximum capacity purchased under the contract.
[3] Total support charges including debt service requirements.
[4] Total estimated 1995 annualized capacity payments, including debt service requirements.
[5] Short-term purchases of a month or less in duration.
[6] Net energy purchases from NEPOOL.
[7] Contract Ended 6/30/95 and was replaced by [8].
[8] Replacement for [7].

Note 11 : Segment Information

In accordance with FASB Statement No. 14, the following information is presented relative to the electric and gas operations of the Company:

Electric Operations	1995	1994	1993
Operating Revenues	$138,099,371	$134,096,627	$132,754,707
Operating Income Before Income Taxes	$16,781,348	$15,884,879	$15,248,660
Identifiable Assets as of December 31	$174,269,584	$171,757,678	$169,360,726
Depreciation	$5,504,701	$5,359,212	$5,215,489
Construction Expenditures	$11,846,778	$7,364,344	$6,849,060
Gas Operations	**1995**	**1994**	**1993**
Operating Revenues	$17,629,879	$18,694,703	$18,486,105
Operating Income Before Income Taxes	$1,578,103	$2,026,055	$2,512,287
Identifiable Assets as of December 31	$30,013,418	$28,181,365	$27,168,106
Depreciation	$810,912	$770,405	$733,583
Construction Expenditures	$2,007,922	$1,816,390	$1,070,984
Total Company	**1995**	**1994**	**1993**
Electric and Gas Operating Revenues	$155,729,250	$152,791,330	$151,240,812
Other Revenue	940,954	624,560	368,010
Total Operating Revenues	$156,670,204	$153,415,890	$151,608,822
Operating Income Before Income Taxes	$18,359,451	$17,910,934	$17,760,947
Income Tax Expense	(4,097,161)	(4,137,430)	(3,687,538)
Non-Operating Income	171,089	62,887	50,145
Net Interest and Other Expenses	(6,064,583)	(5,798,192)	(6,523,487)
Net Income	$8,368,796	8,038,199	7,600,067
Dividend Requirements on Preferred Stock	283,749	291,543	297,577
Net Income Applicable to Common Stock	$8,085,047	$7,746,656	$7,302,490
Identifiable Assets as of December 31	$204,283,002	$199,939,043	$196,528,832
Unallocated Assets, Primarily Working Capital	7,419,282	4,582,418	4,979,923
Total Assets as of December 31	$211,702,284	$204,521,461	$201,508,755
Depreciation	$6,315,613	$6,129,617	$5,949,072
Construction Expenditures	$14,644,963	$8,943,491	$7,713,542

Expenses used to determine operating income before taxes are charged directly to either 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 MDPU. Assets allocated to each segment are based upon specific identification of such assets provided by Company records. Assets not so identified represent primarily working capital items.

Grant Thornton

GRANT THORNTON LLP

Report of Independent Certified Public Accountant to the Shareholders of Unitil Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of Unitil Corporation and subsidiaries as of December 31, 1995 and 1994, 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, 1995. 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 generally accepted auditing standards. 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 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 Unitil Corporation and subsidiaries as of December 31, 1995 and 1994, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

Grant Thornton LLP

Boston, Massachusetts
February 9, 1996

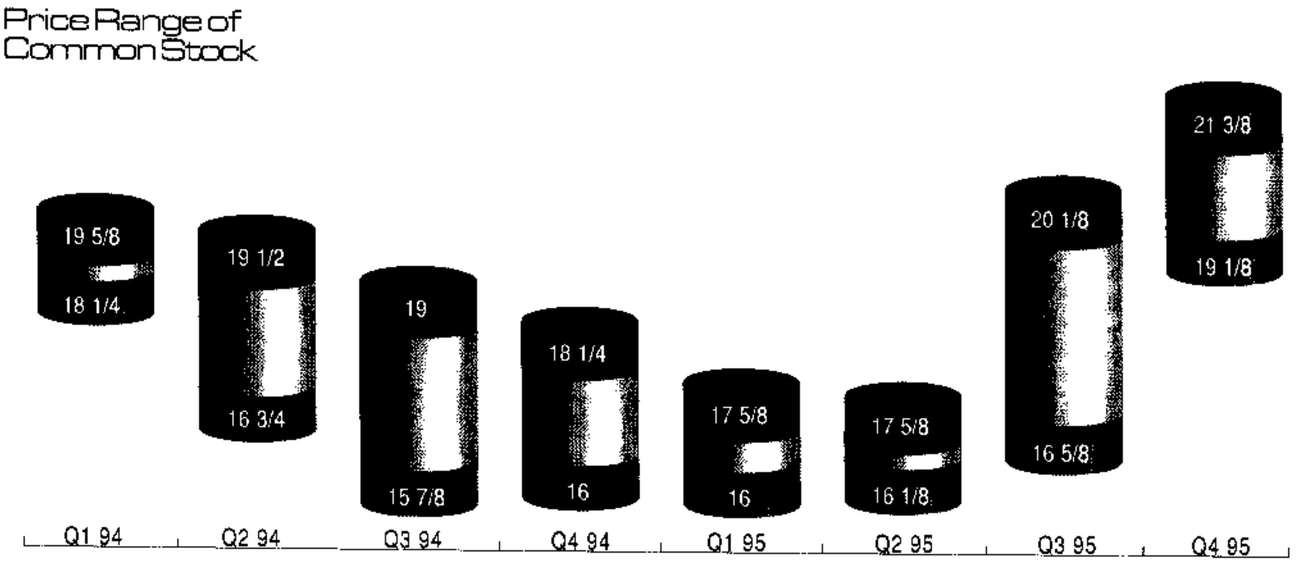
Selected Consolidated Financial Data

	1995	1994	1993	1992
Consolidated Statements of Earnings (000's)				
Operating Income	**$14,262**	$13,774	$14,073	$13,342
Non-Operating Income (Expense)	**171**	62	50	22
Gross Income	**14,433**	13,836	14,123	13,364
Income Deductions	**6,064**	5,798	6,523	6,948
Unsolicited Tender Offer and Merger Expenses (Net of Taxes)	—	—	—	(155)
Net Income Before Cumulative Effect of Accounting Change	**8,369**	8,038	7,600	6,571
Cumulative Effect of Accounting Change	—	—	—	—
Net Income	**8,369**	8,038	7,600	6,571
Dividends on Preferred Stock	**284**	291	298	352
Net Income Applicable to Common Stock	**$8,085**	$7,747	$7,302	$6,219
Balance Sheet Data (000's)				
Utility Plant (Original Cost)	**$190,177**	$178,777	$171,540	$165,880
Total Assets	**211,702**	204,521	201,509	172,348
Capitalization and Short-Term Debt:				
Common Stock Equity	**63,895**	59,997	56,234	52,608
Preferred Stock	**3,999**	4,094	4,198	4,277
Long-Term Debt	**63,505**	65,580	57,378	62,041
Short-Term Debt	**2,700**	—	8,400	4,780
Total Capitalization	**$134,099**	$129,671	$126,210	$123,706
Capitalization Ratios:				
Common Stock Equity	**49%**	46%	45%	43%
Preferred Stock	**3%**	3%	3%	3%
Long-Term & Short-Term Debt	**48%**	51%	52%	54%
Common Stock Data (000's)				
Shares of Common Stock (Year-End)	**4,330**	4,268	4,205	4,152
Shares of Common Stock (Average)	**4,299**	4,234	4,181	4,133
Per Share Data				
Earnings Per Average Share	**$1.88**	$1.83	$1.75	$1.50
Dividends Paid Per Share	**$1.28**	$1.24	$1.15	$1.10
Book Value Per Share	**$14.76**	$14.06	$13.37	$12.67
Electric and Gas Statistics				
Electric Sales (MWH)	**1,401,292**	1,358,165	1,303,326	1,260,747
Customers Served (Year-End)	**88,316**	86,782	85,383	85,131
Gas Sales (000's of Firm Therms)	**22,303**	23,057	22,763	23,281
Customers Served (Year-End)	**14,846**	15,012	15,340	15,514

1991	1990	1989	1988	1987	1986	1985
$12,360	$14,337	$14,567	$14,869	$12,446	$9,828	$8,268
(357)	171	384	78	1,933	2,731	2,612
12,003	14,508	14,951	14,947	14,379	12,559	10,880
8,067	7,979	8,001	7,700	6,843	6,477	8,640
1,571	1,011	2,892	—	—	—	—
2,365	5,518	4,058	7,247	7,536	6,082	2,241
—	—	1,678	—	(507)	—	—
2,365	5,518	5,736	7,247	7,029	6,082	2,241
315	325	334	346	1,151	1,107	1,124
$2,050	$5,193	$5,402	$6,901	$5,878	$4,974	$1,117
$160,575	$153,929	$146,714	$139,790	$130,534	$120,896	$110,436
170,390	171,555	167,979	158,682	147,427	141,362	139,752
49,887	51,664	49,910	48,206	46,656	44,473	41,068
4,412	4,558	4,679	4,847	4,744	9,526	9,728
60,442	53,044	54,695	54,943	52,184	40,626	41,355
9,550	11,783	7,225	8,935	4,330	9,790	13,232
$124,291	$121,049	$116,509	$116,931	$107,915	$104,414	$105,383
40%	43%	43%	41%	43%	43%	39%
4%	4%	4%	4%	4%	9%	9%
56%	53%	53%	55%	53%	48%	52%
4,119	4,111	4,104	4,096	4,231	4,231	4,227
4,115	4,107	4,101	4,169	4,235	4,231	4,227
$0.50	$1.26	$1.32	$1.66	$1.39	$1.18	$0.26
$1.04	$1.02	$0.96	$0.88	$0.80	$0.40	$0.26
$12.11	$12.57	$12.16	$11.77	$11.03	$10.51	$9.72
1,230,049	1,236,950	1,241,600	1,239,679	1,167,292	1,101,411	1,048,926
84,222	83,731	83,374	82,292	79,823	77,328	73,459
20,394	21,215	22,319	21,949	20,929	21,372	21,515
15,713	15,775	15,750	15,642	15,460	15,400	15,160

Selected Consolidated Financial Data

Common Stock Data



Note:
- The Common Stock of the Company is traded on the American Stock Exchange (Symbol: UTL).
- Number of Common Shareholders of Record — 2,449.

Quarterly Financial Data (unaudited)

1st Quarter

Three Months Ended March 31,	1995	1994
Total Operating Revenues	**$41,032,527**	$43,251,834
Operating Income	**$4,340,620**	$4,579,339
Net Income	**$2,718,866**	$3,169,848
Earnings per Average Common Share	**$0.62**	$0.73
Dividends Paid per Common Share	**$0.32**	$0.31

2nd Quarter

Three Months Ended June 30,	1995	1994
Total Operating Revenues	**$37,680,272**	$36,014,601
Operating Income	**$2,921,768**	$2,683,674
Net Income	**$1,527,345**	$1,285,511
Earnings per Average Common Share	**$0.34**	$0.29
Dividends Paid per Common Share	**$0.32**	$0.31

3rd Quarter

Three Months Ended September 30,	1995	1994
Total Operating Revenues	**$37,803,929**	$35,848,472
Operating Income	**$3,266,095**	$2,953,229
Net Income	**$1,818,961**	$1,530,054
Earnings per Average Common Share	**$0.40**	$0.34
Dividends Paid per Common Share	**$0.32**	$0.31

4th Quarter

Three Months Ended December 31,	1995	1994
Total Operating Revenues	**$40,153,476**	$38,300,983
Operating Income	**$3,733,807**	$3,557,262
Net Income	**$2,303,624**	$2,052,786
Earnings per Average Common Share	**$0.52**	$0.47
Dividends Paid per Common Share	**$0.32**	$0.31

Directors & Officers

Directors

Michael J. Dalton
President and Chief Operating Officer of the Company.

G. Arnold Haynes K
President and Principal of Haynes Management, Inc., Wellesley Hills, MA (real estate development and management).

Douglas K. Macdonald
Retired Vice President and Controller of the Company.

J. Parker Rice, Jr. A C
Director and former President and Treasurer of Hyland/Rice Office Products, Inc., Fitchburg, MA (office planning, supplies and equipment).

Peter J. Stulgis E
Chairman of the Board of Directors and Chief Executive Officer of the Company.

Charles H. Tenney II C^ E^
Retired Chairman of the Board and Chief Executive Officer of the Company.

Charles H. Tenney III K
Clerk of Bay State Gas Company, Westborough, MA (natural gas distributor).

William W. Treat A^ E
Lawyer; former Director and Chairman of the Board of Directors of Bank Meridian, Hampton, NH.

W. William VanderWolk, Jr. A E
Owner of Horizon Management, Manchester, NH (property and restaurant management).

Joan D. Wheeler C
Owner of the Russian Gallery, Marblehead, MA (art gallery specializing in works of Russian artists).

Franklin Wyman, Jr. E K^
Chairman and Treasurer of Wright Wyman, Inc., Boston, MA (corporate financial consultants).

Officers

Peter J. Stulgis
Chairman of the Board of Directors and Chief Executive Officer.

Michael J. Dalton
President and Chief Operating Officer.

Gail A. Siart
Chief Financial Officer, Treasurer and Secretary.

Directors Emeriti*

Philip H. Bradley
Retired; formerly Northeast Resident Manager of IBM Corporation, Waltham, MA.

Richard L. Brickley, Sr.
Lawyer; partner in the law firm of Brickley, Sears & Sorett, Boston, MA.

Theodore C. Haffenreffer
Director and President of Haffenreffer & Company, Inc., Boston MA (investments).

Endicott Smith
Lawyer of Counsel in the law firm of Warner & Stackpole, Boston, MA.

E Member of the Executive Committee
A Member of the Audit Committee
C Member of the Compensation Committee
K Member of the Key Employee Stock Option Plan Committee
^ Denotes Committee Chairman
* Retired Board Members

Shareholder Information

Annual Meeting

The annual meeting of shareholders is scheduled to be held at the Sheraton Portsmouth Hotel, 250 Market Street, Portsmouth, New Hampshire, on Thursday, April 18, 1996, at 10:30 a.m.

10-K

The Company's annual report for 1995 on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge upon written request to Gail A. Siart, Treasurer, Unitil Corporation, 216 Epping Road, Exeter, New Hampshire 03833-4571.

Dividend Reinvestment Plan

A Dividend Reinvestment and Stock Purchase Plan is available to all holders of record of the Company's Common Stock. This Plan provides shareholders with a simple and economical way to increase their investments in the Company automatically each quarter by reinvesting their dividends at a discount of five percent from current market price, without payment of brokerage fees. The Plan also allows for optional cash payments of a minimum of $25 and a maximum of $5,000, which can be made quarterly to purchase additional shares of Common Stock at current market prices. For further information, please contact:

The First National Bank of Boston
UTL Dividend Reinvestment Plan
c/o Boston EquiServe, L.P.
Mail Stop: 45-02-64, P.O. Box 644
Boston, Massachusetts 02102-0644.

Telephone:
800/736-3001 (outside Massachusetts)
617/575-3100 (within Massachusetts)

or the Shareholder Services Representative at the Company

Telephone: 800/999-6501.

Shareholder Information

The Company's Transfer Agent, The First National Bank of Boston, is responsible for our shareholder records, issuance of stock certificates and the distribution of our dividends and IRS Form 1099-DIV. Shareholder requests concerning these and other matters can be answered by corresponding directly with:

The First National Bank of Boston
c/o Boston EquiServe, L.P.
Mail Stop: 45-02-64, P.O. Box 644
Boston, Massachusetts 02102-0644

Telephone:
800/736-3001 (outside Massachusetts)
617/575-3100 (within Massachusetts)

You may contact the Shareholder Services Representative at the Company. Telephone: 800/999-6501.

On the Internet, our home page address is:
http://www.unitil.com

Dividend Direct Deposit

Dividend Direct Deposit Service is available without charge to shareholders of record of the Company's Common Stock. This service provides shareholders with a convenient and secure way to have quarterly dividends deposited directly into a checking or savings account. For further information, please contact:

The First National Bank of Boston
c/o Boston EquiServe, L.P.
Mail Stop: 45-02-64, P.O. Box 644
Boston, Massachusetts 02102-0644.

Telephone:
800/736-3001 (outside Massachusetts)
617/575-3100 (within Massachusetts)

or the Shareholder Services Representative at the Company

Telephone: 800/999-6501.

Unitil

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