AMEX: UTL

UNITIL CORPORATION

2002 ANNUAL REPORT

Contents

Company Description

Unitil (AMEX: UTL) is a public utility holding company with subsidiaries providing electric service in New Hampshire, electric and gas service in Massachusetts and energy services throughout the Northeast. Additional information is available at www.unitil.com. Unitil's subsidiaries include Fitchburg Gas and Electric Light Company, Unitil Energy Systems, Inc., Unitil Power Corp., Unitil Realty Corp., Unitil Service Corp. and its unregulated business unit Unitil Resources, Inc. Usource L.L.C. is a subsidiary of Unitil Resources, Inc.

Financial Highlights

Financial Data (000's)

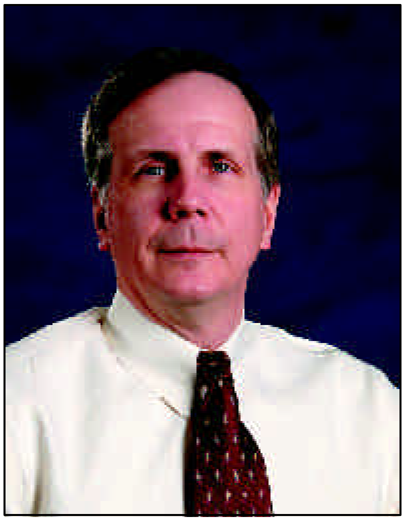
	2002	2001	2000
Operating Revenues			
Electric	**$ 167,317**	$ 183,780	$ 160,023
Gas	**20,283**	22,828	22,756
Other	**786**	414	162
Total	**$ 188,386**	$ 207,022	$ 182,941
Total Operating Income	**$ 13,248**	$ 14,394	$ 14,280
Net Income	**$ 6,088**	$ 1,090	$ 7,216
Total Assets	**$ 480,783**	$ 376,762	$ 382,967
Construction Capital Expenditures	**$ 20,825**	$ 19,890	$ 21,092

Common Share Data

Earnings per Share	**$ 1.23**	$ 0.18	$ 1.47
Non-recurring Items, net of tax:			
Restructuring Charge	**(0.20)**	—	—
Investment Write-down	**—**	(0.50)	—
Extraordinary Item	**—**	(0.83)	—
Earnings Before Non-recurring Items	**$ 1.43**	$ 1.51	$ 1.47
Dividends Paid per Common Share	**$ 1.38**	$ 1.38	$ 1.38
Book Value per Share (Year-End)	**$ 15.67**	$ 15.76	$ 16.88
Market Price (Year-End)	**$ 24.80**	$ 23.40	$ 26.50
Common Shares Outstanding (Year-End)	**4,743,696**	4,743,696	4,734,917
Number of Common Shareholders of Record (Year-End)	**1,932**	2,062	2,131

Operating Data

Electric Distribution Sales (000's of Kilowatt-hours)	**1,659,136**	1,596,390	1,587,536
Electric Customers (Year-End)	**96,985**	95,116	94,050
Firm Gas Distribution Sales (000's of Therms)	**22,480**	23,067	23,992
Gas Customers (Year-End)	**14,911**	14,879	14,796
Number of Employees	**316**	333	339



"Unitil began 2003 a stronger, leaner and more focused Company."

Transparency, St

Your Company made significant progress in 2002. Despite the most prolonged market downturn since the Great Depression, a multitude of corporate scandals, significant extremes of weather and the momentum towards possible war, Unitil began 2003 a stronger, leaner and more focused Company.

Two years ago, we promised you that we would accomplish three milestones:

- Complete the restructuring of our New Hampshire and Massachusetts operations.
- Return to more normal utility earnings.
- Make Usource a profitable venture.

Here's an overview of all that has been accomplished.

First, Unitil is nearing the completion of a fundamental five-year restructuring process brought about by the deregulation of the natural gas and electric industries in New Hampshire and Massachusetts. By the middle of 2003, we will have divested of our entire generation and power supply portfolio, transforming the Company's vertically integrated utility operations into a solid pipes-and-wires business providing gas and electric delivery services.

In the process, we have secured recovery of approximately a quarter billion dollars for all our power supply related stranded costs through approved rate mechanisms. We have implemented sweeping customer and financial information system changes to accommodate the transition to competitive energy markets, and we have adjusted our utility delivery rates to reflect our new status as a restructured gas and electric energy delivery company. Not only is this a major achievement, but also it eliminates a major uncertainty and liability for your Company which adversely affected financial results over the last several years.

During this restructuring process, our focus has been twofold: ensuring a fair and reasonable treatment of your investment, and making sure we are properly structured from both a financial and an operational perspective to continue to provide our customers with high-quality and competitively priced ability.Progress

electric and gas delivery services.

Second, we successfully completed four gas and electric rate cases last year, which will significantly improve earnings and cash flow from our distribution operations. Among these were our first major electric rate cases in more than 20 years, reflecting higher operating costs and significant capital investments.

As importantly, we completed this agenda on excellent terms with regulators in both states. These actions will return our earnings to a more stable and utility-like pattern and will provide good support for the Company's dividend.

Third, Usource cut its costs significantly and doubled its revenues over a one-year period. While energy markets remain volatile and unpredictable, we believe Usource is moving steadily towards profitability and represents a relatively low-cost, low-risk opportunity to enhance shareholder value.

Fourth, Unitil has always strived for a "what-you-see-is-what-you-get" approach to corporate governance and financial reporting. For example, we have always expensed options granted under our management stock option program. We have been, and will continue to be, committed to complete financial disclosure and exemplary corporate governance.

Finally, the retirements of two senior executives have provided us with an opportunity to change the way we organize and manage your Company. We now have a leaner and flatter management structure. This will produce significant cost savings, as well as provide a more efficient structure to oversee our operations and deal more effectively with our various customer groups.

Year in Review: 2002 was an extremely challenging year, characterized by generally adverse and uncertain economic, corporate and geopolitical environments. In the face of this environment and a daunting work agenda, we were able to increase earnings to $1.23 per share — up from $0.18 per share in 2001.

"Unitil has essentially eliminated its most significant outstanding regulatory and environmental uncertainties. We are in a unique and enviable position relative to our industry at large."

Restructuring Stock Price Environment

Excluding various non-recurring items, as discussed in detail in the Management's Discussion and Analysis, earnings per share were $1.43 for 2002 and $1.51 for 2001.

Our stock price held up well for most of the year, but weakened at year end and in early 2003, along with the general market. Our total return significantly outperformed the utility averages and general market indices, as investors returned to fundamentally sound and reliable investments. Unitil was a good investment in an otherwise dismal year on Wall Street.

Last year was also the culmination of a five-year process, which began in 1997, to restructure the Company in accordance with legislatively mandated energy restructuring laws in New Hampshire and Massachusetts. By being required to sell off its interests in generating assets and energy power purchase contracts, Unitil has emerged a smaller company, primarily focused on energy distribution. However, in completing this process, we have also eliminated a lot of complexity and uncertainty inherent in the management and financing of the business.

At the same time, we engaged in an active regulatory process to request — and receive — increases in our distribution rates in all jurisdictions to reflect increased capital investment and operating expenses. The resulting regulatory orders allowed us to increase our distribution charges beginning in early December of 2002, and will provide a total increase of $7 million in annual distribution revenues.

Also in 2002, we resolved a significant environmental contingency facing your Company. Under a consent order we voluntarily initiated with the U.S. Environmental Protection Agency, Unitil is in the process of cleaning up a former electric generating station in Fitchburg, Massachusetts. This remedial project involves the cleanup and removal of asbestos and related hazardous materials from a building which the Company no longer owns. Cleanup is expected to be completed at the end of 2003, and payment of the cleanup costs is expected to be borne solely from insurance coverage.

As a result of these activities, Unitil has essentially eliminated its most significant outstanding regulatory and environmental uncertainties. We are in a unique and enviable position relative to our industry at large.

Pension costs were another area of major liability for corporate America in 2002. With the precipitous fall in the value of pension fund assets, pension plans were quickly transformed to a major new cost element for many firms. Your Company was able to secure regulatory approval to account for certain pension obligations as regulatory assets. In doing so, we avoided a significant reduction to equity. We continue to monitor pension costs, and we will seek appropriate regulatory treatment of going-forward costs, as necessary.

Growth: Our service areas experienced above-average sales growth relative to the region in 2002, reflecting a favorable economic position and continued strength in residential real estate. We also experienced more normal weather conditions for the year, which boosted sales, particularly in the latter part of the year.

These factors increased distribution revenues for the year, even though electric distribution rates were lower in Massachusetts for the first 11 months, as a result of a regulatory order that reduced electric rates in October 2001. Distribution rates were permanently increased in December 2002, for all our utility business units, and these higher rates will apply to all 2003 sales.

Management Changes: Two experienced and valuable senior executives announced their retirements at the end of 2002.

Mike Dalton, President of Unitil Corporation, will retire after 39 years with the Company. Mike had a distinguished career, spanning the creation of Unitil Corporation, the merger of Fitchburg Gas and Electric Light Company, the successful defeat of a hostile takeover bid by Eastern Utilities Associates and the restructuring of Unitil distribution operations. His knowledge of distribution operations has consistently placed our operating costs among the lowest, and customer loyalty among the best, in our industry.

Tony Baratta, Senior Vice President and Chief Financial Officer, also announced his retirement after five years with Unitil. I hired Tony just after I came on board in 1997. He brought more than 30 years of diverse executive and financial experience in the utility industry. He was a key player in successfully working through the restructuring process and rate cases. He was also an able mentor of our up-and-coming financial staff, and an overall valued counsel.

Good management anticipates change. We had developed a management succession plan in anticipation of these recent announcements. We also saw an opportunity to reevaluate how we were organized, and we took advantage of that opportunity.

Unitil had a group of talented managers already in place to step up to help me run the Company. I would put this team up against any other in the industry. They are profiled in the following pages.

Finance

Mark Collin: Senior Vice President & Chief Financial Officer — 15 years with the Company.

are based, not solely on how well we predict all our challenges and opportunities, but also on how well we prepare for, and respond to, uncertainties.

"Regulatory Relations: We will continue to work closely with industry regulators to support initiatives that appropriately balance the interests of our shareholders and customers.

"Financial Strength: We diligently monitor each component of our balance sheet, sources and uses of cash, and results of earnings. Dedication to the fundamentals assures that we will be focused on long-term financial growth and stability.

"Integrity: Unitil takes great pride in the thoroughness of our financial disclosure. We will continue to conduct our business in ways that ensure the highest level of integrity."

Operations

Tom Meissner: Senior Vice President Operations — eight years with the Company.

"Key objectives include *the alignment of all our operating locations and functions into a single, unified team. Our focus will be: the efficiency and effectiveness of our distribution operations; the teamwork, collaboration and creativity of our people; and strong leadership at all levels. This team will develop and execute the strategies that ensure Unitil's continued leadership in energy delivery.*

"Our biggest challenge is the increased pace of change in the world around us. Our greatest opportunity is represented in the depth and skill of our employees. Unitil's diverse workforce of talented and committed individuals represents a unique competitive advantage. We are very good at what we do. Our goal in operations is to be great, and that involves a never-ending focus on continuous improvement, and the pursuit of operational ideals."

Customers

George Gantz: Senior Vice President Customer Services & Communications — 19 years with the Company.

"The unified leadership *of our customer services, business services and communications functions provides a unique opportunity for the implementation of comprehensive customer loyalty programs and strategies.*

"It also provides for the delivery of integrated communications services to our customer, employee, media, community and shareholder audiences. These efforts will build on Unitil's already positive reputation with its customers.

"Our focus includes an emphasis on attracting and retaining customers and working with local and regional economic development agencies to increase our distribution sales. We will also deliver value-added energy efficiency programs to our customers. We want our customers to be efficient and knowledgeable users of our services."

Information

Raymond Morrissey: Vice President Information Systems — 17 years with the Company.

*“**We will provide** a central resource for technology and its application to our business strategies. At the same time, we will provide a consistent vision for the use of technology to solve business issues, and to provide methods for technologically smart, well-organized development.*

“We will use the same methods that have been successful in the Company’s web-based systems development to move forward with an open system using independent software products in a web-based environment.

“In the year ahead, our greatest opportunity will be to unify all the elements of our significant past successes in building systems that are accessible, scaleable and open to both internal and external stakeholders, and to bring these various technical resources into one unit that serves the whole Company.”

Administration

George Long: Vice President Administration — nine years with the Company.

*“**It’s all about our people.** Our job is to make sure that our ‘best of class’ employees receive the same quality service from us that we expect them to deliver to our customers.*

“In the coming year, we will be focused on cost management, leadership development, service enhancement and safety improvement. Our greatest challenge is the rapidly rising cost of employee benefits — particularly medical insurance and pension benefits. We will continue our proactive cost control through an emphasis on employee wellness and increased cost sharing, as appropriate.

“When the economy turns around, all employers will be faced with a shortage of skilled labor. We will be prepared for that day with a platform of competitive wages, attractive benefits and a work environment that will be hard to beat.”

Usource

Todd Black: Vice President Usource — four years with the Company.

*“**Usource will focus on** its core procurement services offerings by which we help large consumers of gas and electricity execute purchasing strategies. At the same time, we will continue to evaluate extended services, such as fuel management for generation projects, and other energy management and information-based offerings that leverage our experience and expertise.*

“Usource’s biggest challenge is the economic and regulatory environment around deregulation. We are focused on executing in markets where choice is working, and remaining positioned in markets that may not be competitive for the short term.

“Usource is well positioned in the Northeast to take advantage as competitive markets open. We also believe there are opportunities for Usource to cross-sell other service offerings to existing customers.”

"Your management team loves to run this business and treats your investment in the Company as if it were their own."

Organization Governance Prospects

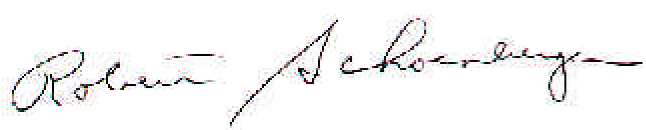
Our organizational approach in revamping the Company's management structure was twofold: 1) to group functional areas together to eliminate duplicate work and flatten the levels of management, and 2) to reduce the overhead cost of running the Company. Cost savings are projected to be more than $2 million per year.

Not a day seems to go by without another corporate scandal, SEC investigation, or proposal to fix corporate governance. In our opinion, the current sad state of affairs is as much a failure of personal and company values as it is of corporate governance.

We have closely followed legislatively mandated changes in the Sarbanes-Oxely Act of 2002 and recommendations and proposals made by other groups such as the AMEX, the NYSE and the SEC relative to the governance of your Company. Our review concludes that the Company is currently in excellent compliance with most of these requirements and proposals. We plan to monitor developments and adopt changes, as may be warranted or appropriate. You have our continuing commitment to provide full, transparent and timely information on your investment in the Company.

These have not been easy times for corporate managers and directors, investors and citizens at large. Basic assumptions that we all took for granted have often proved to be illusory. In such times, it is necessary for business leaders to come back to the basics — to ask why we are in business and what are our responsibilities to our investors, our workers and our customers. We need corporate managers who know and love to run their businesses and who understand the needs and interactions of all their important constituencies. Your management team loves to run this business and treats your investment in the Company as if it were their own.

We are excited about the prospects for 2003 and beyond. We have persevered through a challenging transition, have avoided many of the mistakes others have made in our industry, and are prepared to realize opportunities off a new stable base. Our best times are just around the corner.



Robert G. Schoenberger
Chairman of the Board of Directors
& Chief Executive Officer

February 24, 2003

Management's Discussion & Analysis of Financial Condition and Results of Operations

Overview

Unitil Corporation (Unitil or the Company) is nearing the completion of an unprecedented restructuring process brought about by the deregulation of the natural gas and electric industries in New Hampshire and Massachusetts. As a result, by the middle of 2003, the Company expects to have divested its entire generation and power supply portfolio, thus transforming the Company's vertically integrated utility operations into principally a pipes-and-wires business providing gas and electric delivery services. In the process, Unitil's distribution subsidiaries secured regulatory approval for the recovery of approximately a quarter billion dollars for all power supply related stranded costs, implemented comprehensive customer and financial information systems to accommodate the transition to competitive energy markets, and adjusted all utility delivery rates to reflect the overall cost of service as a restructured gas and electric energy delivery company.

During this restructuring process, management's focus has been to ensure fair and reasonable treatment of the investments made to meet the needs of Unitil's customers, while at the same time making sure that the Company is properly structured from both a financial and an operational perspective to continue to provide high-quality and competitively priced electric and gas delivery services.

Highlights of Year 2002:

- On January 25, 2002, the Company's New Hampshire electric utility subsidiaries Concord Electric Company (CECo), Exeter & Hampton Electric Company (E&H) and Unitil Power Corp. (UPC) filed a comprehensive electric restructuring proposal with the New Hampshire Public Utilities Commission (NHPUC). This proposal included the introduction of customer choice, the divestiture of UPC's power supply portfolio, the recovery of stranded costs, the combination of CECo and E&H into a single electric distribution utility, and new distribution rates for the combined entity. On October 25, 2002, the NHPUC approved a multi-party settlement on all the major issues in the proceeding.

  A key result of the New Hampshire restructuring settlement was the formation of Unitil Energy Systems, Inc. (UES) on December 2, 2002. UES is the New Hampshire distribution electric utility formed by the combination of CECo and E&H, and is a wholly-owned subsidiary of Unitil.

  UES received an increase of approximately $2.0 million in annual distribution revenue to cover current operating costs, depreciation and amortization, and investments in utility plant. These rates became effective December 1, 2002.

- On May 17, 2002, the Company's Massachusetts distribution utility subsidiary, Fitchburg Gas and Electric Light Company (FG&E), filed revised rates with the Massachusetts Department of Telecommunications and Energy (MDTE) designed to increase annual base distribution revenues for both electric and gas operations to cover increases in operating expenses, depreciation and the cost of invested capital. On December 2, 2002, the MDTE authorized base rate changes to increase annual distribution revenues by $2.0 million for electric operations and $3.0 million for gas operations. In addition, increases for rising gas supply costs were incorporated into the final gas rates, effective December 2, 2002.

- On October 15, 2002, the MDTE issued an Order approving a settlement agreement that resolved and secured the recovery of FG&E's restructuring-related stranded costs. The settlement resolves issues concerning FG&E's compliance with the Massachusetts Electric Restructuring Act of 1997 and related MDTE Orders. Under the settlement, FG&E agreed to reduce the carrying charge on deferred transition costs and to pass along the benefit of lower interest costs to customers.

- Unitil eliminated a major environmental liability associated with a former electric generating station in Fitchburg, Massachusetts. Under a consent Order voluntarily initiated by Unitil with the U.S. Environmental Protection Agency (EPA), a remedial project to clean up and remove asbestos and related hazardous materials from a building formerly owned by the Company is underway. Site remediation is expected to be completed at the end of 2003. Funds from an insurance settlement related to this issue are believed to be sufficient to complete the remediation work, such that this matter will not have a material effect on the Company's financial position.

- In December 2002, FG&E and UES received regulatory approval to account for certain pension obligations as regulatory assets, avoiding a reduction in equity that would have been triggered by the substantial decline in the capital markets. These regulatory Orders do not pre-approve the amount of pension expense to be recovered in future rates. Such recovery will be subject to review and approval in future rate proceedings.

- Unitil's non-regulated business, Usource, nearly doubled its revenues in 2002, as its electric and gas energy brokerage business continues to expand into new regions where large commercial and industrial customers are able to choose their energy suppliers.

- In December 2002, Unitil committed to a formal management transition and reorganization plan to streamline its management structure and to improve efficiency to meet ongoing business requirements. The Company estimates this reorganization will result in an annual cash savings of approximately $2.3 million in operating expenses and construction project overheads in future periods.

Earnings

Earnings per Share

	2002	2001	2000
Earnings per Share	**$ 1.23**	$ 0.18	$ 1.47
Non-recurring Items, net of tax:			
Restructuring Charge	**(0.20)**	—	—
Investment Write-down	**—**	(0.50)	—
Extraordinary Item	**—**	(0.83)	—
Earnings Before Non-recurring Items	**$ 1.43**	$ 1.51	$ 1.47

Earnings in 2002 were $5.8 million, or $1.23 per common share on a diluted basis, compared to $0.8 million, or $0.18 in 2001. Results for both years included significant non-recurring charges that affected earnings.

In the fourth quarter of 2002, Unitil recorded a non-recurring Restructuring Charge of $1.6 million, or ($0.20) per share, associated with the reorganization and reduction of 19 management and administrative positions. The Company estimates that the result of this management restructuring process will be an annual cash savings in future periods of approximately $2.3 million in operating expenses and construction project overheads.

In 2001, as a result of industry restructuring-related regulatory Orders, Unitil recognized an Extraordinary Item to reduce Regulatory Assets by $3.9 million after tax, or ($0.83) per share. Unitil also recorded an Investment Write-down of $2.4 million after-tax, or

($0.50) per share, to recognize a decrease in the fair value of a non-utility energy technology investment. Unitil subsequently sold its remaining interest in this non-utility investment in 2002 and realized $1.5 million in cash. As a result of this sale, the Company will also realize approximately $1.3 million in current tax refunds from the carryback of this capital loss. This sale transaction did not have a material impact on Unitil's 2002 operating results.

Excluding the effect of these 2002 and 2001 non-recurring items, comparable earnings per share were $1.43 in 2002 and $1.51 in 2001. This decrease in earnings was mainly the result of increases in certain operating expenses, including higher pension and health care costs, higher depreciation expense associated with increased investments in Utility Plant, and accelerated amortization of certain Regulatory Assets. These impacts were partially offset by higher distribution base revenues.

A year-to-year comparison of Unitil's financial condition, changes in financial condition and results of operations for the three-year period 2000 through 2002 follows.

RESULTS OF OPERATIONS

Operating Revenue — Electric

Kilowatt-hour Sales — Unitil's total electric kilowatt-hour (kWh) sales increased by 3.9% in 2002 compared to 2001. This increase reflects growth in sales to residential and commercial and industrial customer classes driven by hotter-than-normal summer weather.

Sales to residential customers increased by 3.9% in 2002 compared to 2001. The increase in energy sales reflects an increase in the number of residential customers as well as higher usage per customer, due to weather. Commercial and industrial sales of electricity also increased by 3.9% in 2002 compared to 2001. In addition, warmer summer weather in 2002 as compared to 2001 contributed to the increase in energy sales.

Unitil's total electric kWh sales increased by 0.6% in 2001 compared to 2000. This increase reflected growth in sales to residential and commercial customer classes, offset by reductions in kWh sales to industrial customers, due to the impact of the general economic downturn experienced in 2001.

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

Kilowatt-hour Sales (000's)

	2002	2001	2000
Residential	**619,756**	596,378	576,524
Commercial and Industrial	**1,039,380**	1,000,012	1,011,012
Total	**1,659,136**	1,596,390	1,587,536

Electric Operating Revenue — Electric Operating Revenue decreased by $16.5 million, or 9.0%, in 2002 compared to 2001. This decrease in revenue is the result of a reduction in wholesale commodity fuel prices overall and lower distribution rates in the Massachusetts service territory, offset by the increase in kWh sales. The energy component of Electric Operating Revenue represents the recovery of energy supply costs, which are collected from customers through periodic cost recovery adjustment mechanisms. Changes in energy supply revenues do not affect net income, as they normally mirror corresponding changes in energy supply costs.

In 2001, Electric Operating Revenue increased by $23.8 million, or 14.8%, as compared to 2000. This increase in revenue was the result of increased wholesale commodity fuel prices.

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

Electric Operating Revenue (000's)

	2002	2001	2000
Residential	**$ 65,746**	$ 71,960	$ 61,506
Commercial and Industrial	**101,571**	111,820	98,517
Total	**$ 167,317**	$ 183,780	$ 160,023

Operating Revenue — Gas

Therm Sales — Total firm therm sales decreased 2.5% in 2002 compared to 2001, due to a warmer winter in early 2002 and the impact of the general economic downturn, partially offset by colder weather in the latter stages of 2002 compared to the prior year.

In 2001, total firm therm sales decreased 3.9% compared to 2000, primarily due to a warmer winter compared to the prior year and the impact of the general economic downturn.

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

Firm Therm Sales (000's)

	2002	2001	2000
Residential	**11,022**	11,175	11,730
Commercial and Industrial	**11,458**	11,892	12,262
Total	**22,480**	23,067	23,992

Gas Operating Revenue — Gas Operating Revenue, which represents approximately 11% of Unitil's total Operating Revenues, decreased by $2.5 million, or 11.1%, in 2002 compared to 2001. This was attributable to lower unit sales and decreased wholesale gas commodity prices. The energy commodity component of Gas Operating Revenue represents the recovery of energy commodity supply costs, which are collected from customers through periodic cost recovery adjustment mechanisms. Changes in energy commodity supply revenues do not affect net income, as they normally mirror corresponding changes in energy commodity supply costs.

In 2001, total Gas Operating Revenue was flat, as compared to 2000. This was attributable to lower unit sales, offset by higher gas supply prices.

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

Gas Operating Revenue (000's)

	2002	2001	2000
Residential	**$ 10,871**	$ 12,779	$ 11,540
Commercial and Industrial	**8,007**	9,505	8,745
Total Firm Gas Revenue	**18,878**	22,284	20,285
Interruptible Gas Revenue	**1,405**	544	2,471
Total	**$ 20,283**	$ 22,828	$ 22,756

Operating Revenue — Other

Total Other Revenue increased $0.4 million, or 89.9%, compared to 2001. This was the result of growth in revenues from the Company's non-regulated energy brokering business, Usource.

In 2001, total Other Revenue increased $0.3 million, compared to 2000. This was also the result of increased Usource brokerage fees.

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

Other Revenue (000's)

	2002	2001	2000
Usource	**$ 756**	$384	$131
Other	**30**	30	31
Total	**$ 786**	$ 414	$ 162

Operating Expenses

Fuel and Purchased Power — Fuel and Purchased Power expense is the cost of purchased power, including fuel used in electric generation and the cost of wholesale energy and capacity purchased to meet Unitil's electric energy requirements. Fuel and Purchased Power expenses, recoverable from customers through periodic cost recovery adjustment mechanisms, decreased $18.3 million, or 13.8%, in 2002 compared to 2001. The change was driven by a decrease in wholesale power prices, compared to the volatile markets and rising energy prices that the nation experienced in early 2001.

In 2001, Fuel and Purchased Power expenses increased $22.7 million, or 20.6%, compared to 2000. This change was mainly due to increased wholesale power prices.

Gas Purchased for Resale — Gas Purchased for Resale reflects gas purchased and manufactured to supply the Company's total gas energy requirements. Gas supply costs are recoverable from customers through the Cost of Gas Adjustment mechanism. Gas Purchased for Resale decreased by $2.7 million, or 19.4% in 2002 compared to 2001, reflecting a decrease in wholesale gas prices.

In 2001, Gas Purchased for Resale increased by $0.3 million, or 2.5%, compared to 2000, due to a decrease in therms purchased, offset by higher wholesale gas prices in early 2001.

Operation and Maintenance (O&M) — O&M expense includes electric and gas utility operating costs, and the operating cost of the Company's non-regulated business activities. Total O&M expense increased $0.7 million, or 2.7%, in 2002 compared to 2001, primarily due to higher employee and retiree health and pension costs.

In 2001, total O&M expense increased $0.5 million, or 1.9%, compared to 2000, mainly due to higher utility system maintenance costs.

Depreciation, Amortization and Taxes

Depreciation and Amortization — Depreciation and Amortization expense increased $2.1 million, or 16.8%, in 2002 compared to 2001, due to a higher level of Utility Plant investments and the accelerated amortization of restructuring-related Regulatory Assets.

In 2001, Depreciation and Amortization expense increased $0.8 million, or 6.7%, compared to 2000, due to a higher level of Utility Plant investments.

Federal and State Income Taxes — Federal and State Income Taxes decreased $0.9 million, or 27.2%, in 2002 compared to 2001, due to lower pre-tax operating income in 2002 and the amortization in 2002 of deferred tax liabilities related to the accelerated write-off of Regulatory Assets.

In 2001, Federal and State Income Taxes remained level compared to 2000.

Local Property and Other Taxes — Local Property and Other Taxes increased $0.1 million, or 1.4%, in 2002 compared to 2001. This increase was related to a higher level of Utility Plant and higher tax rates, partially offset by the repeal of the State of New Hampshire Utility Franchise Tax.

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

Interest Expense, net

Interest expense is presented in the financial statements net of interest income. In 2002, Interest Expense, net, increased primarily due to the refinancing of lower cost short-term debt with higher cost long-term debt and additional borrowings to support the Company's capital requirements. Total interest expense was $9.3 million, $9.1 million and $8.6 million in 2002, 2001 and 2000, respectively, due to higher debt outstanding in those years. Interest income was $2.3 million, $2.3 million and $1.8 million in 2002, 2001 and 2000, respectively, reflecting higher interest earned on recoverable deferred asset balances related to industry restructuring.

Non-recurring Items

2002 Restructuring Charge — In the fourth quarter of 2002, the Company recognized a pre-tax Restructuring Charge of $1.6 million. The after-tax effect of the Restructuring Charge was a reduction of $0.20 in Earnings Per Common Share, assuming full dilution.

In December 2002, the Company undertook a strategic review of its business operations and committed to a formal transition and reorganization plan (the Reorganization Plan) to streamline its management structure, in order to improve operating efficiency and to align the organization to meet ongoing business requirements. The Reorganization Plan resulted in the elimination of 19 management and administrative positions. As a result of the elimination of these positions, and consistent with existing Company policy, certain benefits are extended to the employees whose positions were eliminated. On January 8, 2003, the Company implemented the remainder of the Reorganization Plan. The Company estimates that the result of this management restructuring process will be an annual cash savings of approximately $2.3 million in operating expenses and construction project overheads.

The $1.6 million pre-tax Restructuring Charge established a liability at December 31, 2002, to cover the disbursement of severance and employee benefits and related costs committed to under the Reorganization Plan, substantially all of which will be paid in fiscal 2003. At December 31, 2002, the Restructuring Charge of $1.6 million is included in Other Current Liabilities.

2001 Investment Write-down, net of tax — Beginning in 1998, Unitil invested $5.5 million in Enermetrix, Inc. (Enermetrix), an energy technology start-up enterprise. In accordance with Statement of Financial Accounting Standards (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities," the Company recorded a non-cash charge of $3.7 million, or $2.4 million, net of tax, in the fourth quarter of 2001 to recognize the decrease in fair value of its non-utility investment in Enermetrix.

On April 11, 2002, the Company sold its equity ownership in Enermetrix for $1.5 million in cash and improved commercial terms for use of the Enermetrix Software Network. As a result of the sale, in 2002, the Company recognized the benefit of approximately

$1.3 million of this capital loss as a carryback against capital gains in its 2002 tax return.

2001 Extraordinary Item, net of tax — In November 1997, the Massachusetts Legislature enacted the Massachusetts Electric Restructuring Act of 1997 (the Restructuring Act). The Restructuring Act required all electric utilities to file a restructuring plan with the MDTE by December 31, 1997. Among other things, the Restructuring Act required all Massachusetts electric utilities to sell all of their electric generation assets and to restructure their utility operations to provide direct retail access to their customers by all qualified generation suppliers.

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

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

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

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

Capital Requirements and Liquidity

Unitil requires capital to fund the addition of property, plant and equipment to improve, protect, maintain and expand its electric and gas distribution systems and for working capital and other timing differences related to the collection of revenues in rates.

The capital necessary to meet these requirements is derived primarily from internally-generated funds, which consist of cash flows from operating activities, excluding payments of dividends. The Company supplements internally generated funds, as needed, primarily through bank borrowings under unsecured short-term bank lines. As of December 31, 2002, the Company had unsecured bank lines for short-term debt in the aggregate amount of $38 million with three banks. The amount of short-term borrowings that may be incurred by Unitil and its subsidiaries is subject to periodic approval either by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (1935 Act) or by state regulators. In 2001, the Company received SEC authorization to allow Unitil to incur total short-term borrowings up to a maximum of $45 million.

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

In addition to the significant contractual obligations listed in the table below, the Company also provides limited guarantees on certain energy contracts entered into by its regulated subsidiary companies. The Company's policy is to limit these guarantees to two years or less. As of December 31, 2002, there are $1.8 million of guarantees outstanding and these guarantees extend through October 15, 2004.

Significant Contractual Obligations (000's)
as of December 31, 2002

	Total	2003	2004 - 2005	2006 - 2007	2008 & Beyond
Long-term Debt	$ 107,469	$ 3,244	$ 3,551	$ 646	$ 100,028
Capital Lease	4,534	1,131	1,464	584	1,355
Power Supply Buyout - MA	81,526	7,276	14,758	15,202	44,290
Purchased Power Contract	99,246	12,619	30,871	26,277	29,479
Gas Supply Contract	6,653	2,123	2,284	2,002	244
Total Contractual Cash Obligations	**$ 299,428**	**$ 26,393**	**$ 52,928**	**$ 44,711**	**$ 175,396**

Cash Flows from Operating Activities — Cash Flows from Operating Activities decreased by $13.6 million in 2002, compared to 2001, mainly due to changes in Accrued Revenues and Accounts Receivable and Accounts Payable related to energy costs. There is an inherent ratemaking lag between the period when energy costs increase and the period when the Company collects those higher energy costs from customers. This timing difference is recorded as Accrued Revenue. During the collection lag period, as occurred in 2002, the Company's cash flow is negatively impacted and additional working capital-related short-term borrowings are necessary. The balance of the decrease in 2002 was due to higher working capital needs, principally resulting from year-end timing differences on energy supply contract payments.

In 2001, Cash Flows from Operating Activities increased by $14.3 million compared to 2000, mainly due to decreased Accrued Revenues and Accounts Receivable related to energy costs. During 2001, the Company collected revenue from rate reconciling mechanisms for higher energy costs incurred in 2000, and used this cash, in part, to pay down short-term debt borrowings.

Cash Provided by Operating Activities (000's)

2002	2001	2000
$ 9,568	$ 23,178	$ 8,864

Cash Flows from Investing Activities — Cash Used in Investing Activities decreased $0.3 million in 2002, compared to the prior year, primarily reflecting a $0.9 million increase in capital expenditures on distribution system additions and improvements, offset by the receipt of $1.5 million of proceeds from the sale of the Company's ownership interest in its non-utility investment. In addition, in 2001, Unitil received $0.3 million in proceeds from the sale of its interest in Millstone Nuclear Generating Station Unit No. 3 (Millstone 3).

Cash Flows Used in Investing Activities decreased approximately $2.7 million in 2001, primarily reflecting a $1.2 million reduction in capital expenditures on distribution system additions and improvements, the receipt of $0.3 million of proceeds from the sale of the Company's ownership interest in Millstone 3, and the reduction of unregulated investment activities.

Capital expenditures are projected to increase in 2003 to approximately $21.6 million, primarily reflecting increased expenditures for utility distribution system improvements.

Cash (Used in) Investing Activities (000's)

2002	2001	2000
$ (19,290)	$ (19,548)	$ (22,249)

Cash Flows from Financing Activities — Cash Flows from Financing Activities increased by $11.4 million in 2002 compared to 2001. This increase primarily reflects increased short-term borrowings used to fund a significant portion of the Company's additions to gas and electric plant and equipment, as well as increased working capital requirements associated with recoverable deferred charges relating to industry restructuring.

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

As a result of rising and volatile wholesale gas and electric energy prices in 2000 and early 2001, the Company filed and obtained authorization from the SEC under the 1935 Act to increase its maximum short-term borrowing level to $45 million. The Company also negotiated with its banks to increase its lines of credit to meet its borrowing obligations. The Company periodically files rate adjustments to its reconciling cost recovery mechanisms to reflect changes in wholesale energy prices.

During 2001 the Company raised $0.3 million of additional common equity capital through the issuance of 11,279 shares of Common Stock in connection with the Dividend Reinvestment and Stock Purchase Plan (DRP). During 2001, the Company moved to open-market purchases to meet its share issuance obligations under the DRP. As a result, the Company did not issue new original shares of Common Stock in connection with the DRP during 2002, and does not anticipate doing so in 2003. In conjunction with the SEC Emergency Orders of September 14 and 21, 2001, which suspended the applicability of certain of the conditions contained in its Rule 10b-18, the Company implemented an interim Common Stock repurchase program. Under this program, in 2001, the Company repurchased, canceled and retired 2,500 shares of its outstanding Common Stock at a total cost of $58,500. The SEC has since lifted its suspension of the aforementioned conditions and accordingly, the Company's interim Common Stock repurchase program is no longer in effect.

Unitil's annual Common Stock dividend in 2002 was $1.38 per share. This annual dividend resulted in a payout ratio of 97% for the year, before the non-recurring Restructuring Charge. Excluding the loss from Non-regulated Operations, the payout ratio was 88% based on Utility Operations, before the Restructuring Charge. At its January 2003 meeting, the Unitil Board of Directors declared a regular quarterly dividend on the Company's Common Stock of $0.345 per share. This quarterly dividend reflects the current annual dividend rate of $1.38 per share.

Cash Provided by (Used in) Financing Activities (000's)

2002	2001	2000
$ 10,806	$ (614)	$ 13,598

Interest Rate Risk

As discussed above, the Company meets it external financing needs by issuing short-term and long-term debt. The majority of the Company's debt outstanding represents long-term notes bearing fixed rates of interest. Changes in market interest rates do not affect interest expense resulting from these outstanding long-term debt securities. However, the Company periodically repays its short-term debt borrowings through the issuance of new long-term debt securities. Changes in market interest rates may affect the interest rate and corresponding interest expense on any new long-term debt securities issued by the Company. In addition, the Company's short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease the Company's interest expense in future periods. For example, if the Company had an average amount of short-term debt outstanding of $25 million for the period of one year, a change in interest rates of 1% would result in a change in annual interest expense of approximately $250,000. The average interest rate on the Company's short-term borrowings was 2.18% and 4.78% during 2002 and 2001, respectively.

Market Risk

Although Until's utility operating companies are subject to commodity price risk as part of their traditional operations, the current regulatory framework within which these companies operate allows for full collection of purchased power and gas costs in rates. Consequently, there is limited commodity price risk after consideration of the related rate-making.

Regulatory Matters

The Unitil Companies are regulated by various federal and state agencies, including the SEC, the Federal Energy Regulatory Commission (FERC), and state regulatory authorities with jurisdiction over public utilities, including the NHPUC and the MDTE. In recent years, there has been significant legislative and regulatory activity to restructure the utility industry in order to introduce greater competition in the supply and sale of electricity and gas, while continuing to regulate the distribution operations of Unitil's utility operating subsidiaries. Unitil implemented the restructuring of its electric operations in Massachusetts in 1998 and is implementing a restructuring settlement for its New Hampshire electric operations that is expected to be effective on May 1, 2003.

sachusetts Electric Operations Restructuring — Beginning March 1, 1998, FG&E implemented its Restructuring Plan under the Massachusetts Restructuring Act. FG&E completed the divestiture of its entire regulated power supply business, including its nuclear investment under the Restructuring Plan. All FG&E distribution customers must pay a transition charge that provides for the recovery of costs associated with FG&E's power portfolio which were stranded as a result of the divestiture of those assets. The plant and Regulatory Asset balances that will be recovered through the transition charge have been approved by the MDTE as part of FG&E's annual Reconciliation Filings. The Restructuring Act also requires FG&E to obtain power for retail customers who choose not to buy energy from a competitive supplier through either Standard Offer Service (SOS) or Default Service. FG&E must provide SOS through February 2005 at rate levels which guarantee rate reductions required by the Restructuring Act. New distribution customers and customers no longer eligible for SOS are eligible to receive Default Service at prices set periodically based on market solicitations as approved by regulators. As of December 31, 2002, competitive suppliers were serving approximately 20% of FG&E's load, mainly for large industrial customers.

As a result of the restructuring and divestiture of FG&E's entire generation and purchased power portfolio, FG&E has accelerated the amortization of its stranded electric generation assets and its abandoned investment in Seabrook Station, a nuclear generating unit. FG&E earns an authorized rate of return on the unamortized balance of these Regulatory Assets. In addition, as a result of the rate reduction and rate cap requirements of the Restructuring Act, FG&E has been authorized to defer the recovery of a portion of its transition costs and SOS costs. These unrecovered amounts are also recorded as Regulatory Assets and earn authorized carrying charges until their subsequent recovery in future periods. In 2002, Unitil's earnings derived from these generation-related Regulatory Assets, including carrying charges earned on deferred transition costs and SOS costs, represented approximately 10% of net income. The value of FG&E's Regulatory Assets is approximately $128 million at December 31, 2002, and is expected to be amortized and recovered over the next three to nine years, through 2012. Earnings from this segment of FG&E's utility business will continue to decline and ultimately cease.

FG&E made a total of four Reconciliation Filings in 1999, 2000, 2001 and 2002. Rate adjustments were approved for effect during the subsequent year, subject to further investigation. In October 2001, the MDTE issued a final Order on FG&E's 1999 Reconciliation Filing which determined the final treatment of Regulatory Assets attributable to stranded generation costs, purchased power costs, and related expenses for the 1999, and future, Reconciliation Filings. FG&E's 2001 Reconciliation Filing, submitted on December 2, 2001, recasts its rates from 1998 through 2001 in compliance with the MDTE's final Order on its 1999 filing. On October 15, 2002, the MDTE issued an Order approving a settlement agreement regarding the Company's 2001 filing. Under the approved settlement, FG&E agreed to reduce the carrying charge on deferred transition costs that will be recovered from customers in future years. This change does not affect current electric rates, but will reduce the total amount of transition costs, including carrying costs, in future years. The MDTE's October 2002 Order and associated settlement resolve many of the issues which otherwise might have been contested in FG&E's future Reconciliation Filings.

FG&E submitted its 2002 Reconciliation Filing on December 20, 2002. Rate adjustments were approved for effect on January 1, 2003, subject to investigation, resulting in a rate reduction of approximately 4.4% for residential SOS customers. The reduction is due to a decrease in the SOS fuel adjustment, which is not subject to the rate cap, and does not affect net income.

Massachusetts Gas Operations Restructuring — Following a three year state-wide collaborative process on the unbundling, or separation, of discrete services offered by natural gas local distribution companies (LDCs), the MDTE approved regulations and tariffs for FG&E and other LDCs to provide full customer choice effective November 1, 2000. The MDTE ruled that LDCs would continue to have an obligation to provide gas supply and delivery services for a five-year transition period, with a review after three years. This review is expected to be initiated in late 2003. The MDTE also required mandatory assignment of LDCs' pipeline capacity to competitive marketers supplying customers during the transition period. This mandatory capacity assignment protects LDCs from exposure to certain stranded gas supply costs during the transition period.

New Hampshire Restructuring — On January 25, 2002, the Company's New Hampshire electric utility subsidiaries, CECo, E&H and UPC, filed a comprehensive restructuring proposal with the NHPUC. This proposal included the introduction of customer choice consistent with New Hampshire's electric utility industry restructuring law, the divestiture of UPC's power supply portfolio, the recovery of stranded costs, the merger of CECo and E&H into one distribution company, UES, and new distribution rates for UES. On October 25, 2002, the NHPUC approved a multi-party settlement on all major issues in the proceeding, including stranded cost recovery for purchased power contracts. The Company estimates that these recoverable stranded costs are approximately $94.5 million and these were recorded as Power Supply Buyout Obligations and Regulatory Assets at December 31, 2002.

Under Unitil's approved restructuring plan, Unitil agreed to divest its existing power supply portfolio and conduct a solicitation for new power supplies from which to meet its ongoing Transition and Default Service energy obligations. On February 26, 2003, Unitil filed for final NHPUC approval of the executed agreements resulting from these divestiture and solicitation processes, including final tariffs for stranded cost recovery and Transition and Default Services. The filing proposed a recovery period of approximately eight years for stranded costs. The implementation of customer choice for UES customers is targeted for May 1, 2003.

In June 1997, Unitil and other New Hampshire utilities intervened as plaintiffs in a suit filed in U.S. District Court by Northeast Utilities' affiliate Public Service Company of New Hampshire for protection from the NHPUC's Final Plan to restructure the New Hampshire electric utility industry. Although the NHPUC found that CECo and E&H were entitled to full interim stranded cost recovery, the NHPUC also made certain legal rulings, that, if implemented, could affect CECo's and E&H's long-term ability to recover all of their stranded costs. The Unitil Settlement approved in October 2002, otherwise resolves all of the issues in the federal court action. Upon receipt of all requested approvals in the proceeding by the NHPUC, and the expiration of all periods of appeal with respect thereto, UES will implement retail choice and Unitil will withdraw its intervention in this federal court action, with prejudice.

Wholesale Power Market Restructuring— Unitil has also been a participant in the restructuring of the wholesale power market and transmission system in New England, which is subject to FERC jurisdiction. New wholesale markets structured pursuant to FERC's Standard Market Design are expected to be implemented in the New England Power Pool during the first half of 2003 under the general supervision of an Independent System Operator and the regulatory oversight of the FERC.

Rate Proceedings— Prior to 2002, the last formal regulatory filings initiated by the Company to increase base rates for Unitil's retail electric operating subsidiaries occurred in 1985 for CECo, 1984 for FG&E, and 1981 for E&H. The last distribution base rate increase request for FG&E's retail gas operations occurred in 1998. In 2001, FG&E's electric base rates were investigated by the MDTE, which resulted in an electric base rate decrease. A majority of the Company's electric and gas operating revenues are collected under various periodic rate adjustment mechanisms including fuel, purchased power, energy efficiency, and restructuring-related cost recovery mechanisms. Industry restructuring will continue to change the methods of how certain costs are recovered through the Company's regulated rates and tariffs.

On the gas side, FG&E continues to provide a multi-year refund through its Cost of Gas Adjustment Clause in compliance with the MDTE's May 2001 Order finding that FG&E had over-collected fuel inventory finance charges. At December 31, 2002, the unamortized balance of this refund was $1.3 million. FG&E believes a refund is not justified or warranted and has appealed the MDTE's ruling to the Massachusetts Supreme Judicial Court (SJC). On a preliminary motion, a single justice of the SJC declined to stay the MDTE's Order based on a finding that refunds made by FG&E may be recouped if FG&E prevails on the merits of its claims. The review of the MDTE Order by the SJC is pending.

On October 25, 2002, as part of the electric restructuring settlement for Unitil's New Hampshire utility operations described above, the Company received approval from the NHPUC for an increase of approximately $2.0 million in annual distribution revenues for UES, effective December 1, 2002.

On December 2, 2002, the MDTE issued an Order resulting in distribution rate increases of $2.0 million for FG&E's electric operations and $3.0 million for FG&E's gas operations. Increases for rising gas costs were incorporated into the final gas rates. FG&E's new rates became effective on December 2, 2002.

On April 16, 2002, FG&E filed Performance Based Regulation (PBR) Plans with the MDTE for both electric and gas operations. PBR is a method of setting regulated distribution rates that provides incentives to control costs while maintaining a high level of service quality. Under PBR, a company's earnings are tied to performance targets, and penalties can be imposed for deterioration of service quality. FG&E's PBR Plans were filed in conjunction with FG&E's distribution rate filings, consistent with MDTE policy to implement PBR in the context of base rate cases. The MDTE did not initiate investigations of the filings. On January 6, 2003, the MDTE issued Orders closing the cases. Accordingly, FG&E's PBR plans have no scheduled date of implementation, and conventional cost-based regulation continues to apply.

In December 2002, FG&E and UES filed requests with their respective state regulatory commissions for approval of an accounting Order to mitigate certain accounting requirements related to pension plan assets, which have been triggered by the substantial decline in the capital markets. These requests were granted by the respective state regulatory commissions in December 2002. These approvals allow FG&E and UES to treat the additional minimum pension liability and Prepaid Pension Costs as Regulatory Assets and avoid the reduction in equity that would otherwise be required. These regulatory Orders do not pre-approve the amount of pension expense to be recovered in future rates. Such recovery will be subject to review and approval in future rate proceedings. Based on these approvals, Unitil has included the amount of the additional minimum pension liabilities and Prepaid Pension Costs of $12.0 million in Regulatory Assets on its balance sheet.

Environmental Matters

The Company's past and present operations include activities that are subject to extensive federal and state environmental regulations.

Sawyer Passway MGP Site — The Company continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. FG&E proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection (DEP), which allows the Company to work towards temporary remediation of the site. Work performed in 2002 was associated with the five-year review of the Temporary Solution submittal (Class C Response Action Outcome) under the Massachusetts Contingency Plan that was filed for the site in 1997. Completion of this work has confirmed the Temporary Solution status of the site for an additional five years. A status of temporary closure requires FG&E to monitor the site until a feasible permanent remediation alternative can be developed and completed.

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

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

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

Due to the continuing deterioration of this former electric generating station and Rockware's continued lack of performance, FG&E, in concert with the DEP and the EPA, conducted further testing and survey work during 2001 to ascertain the environmental status of the building. Those surveys revealed continued deterioration of the asbestos-containing insulation materials in the building.

By letter dated May 1, 2002, the EPA notified FG&E that it was a Potentially Responsible Party for planned remedial activities at the site and invited FG&E to perform or finance such activities. FG&E and the EPA have entered into an Agreement of Consent, whereby FG&E, without an admission of liability, will conduct environmental remedial action to abate and remove asbestos-containing and other hazardous materials. FG&E has awarded contracts for all aspects of the abatement work, which is presently ongoing. FG&E received significant coverage from its insurance carrier. The Company believes that these funds will be sufficient to complete this remediation and that resolution of this matter will not have a material adverse impact on the Company's financial position.

The Company has recorded the estimated cost of the remediation action in Current Liabilities and an offsetting asset reflecting insurance proceeds in Current Assets. At the balance sheet date, net of amounts expended in 2002, the remaining project cost was $3.7 million.

Critical Accounting Policies

The preparation of the Company's 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. The following is a summary of the Company's most critical accounting policies, which are defined as those policies where judgments or uncertainties could materially affect the application of those policies. For a complete discussion of the Company's significant accounting policies, refer to the attached financial statements and Note 1: Summary of Significant Accounting Policies.

Regulatory Accounting — The Company is a regulated utility and its principal business is the distribution of electricity and natural gas. Accordingly, the Company uses the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." In accordance with SFAS No. 71, the Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered in future electric and gas retail rates. The Company also has commitments under long-term contracts for the purchase of electricity from various suppliers. The annual costs under these contracts are included in Fuel and Purchased Power and Gas Purchased for Resale in the Consolidated Statements of Earnings and these costs are recoverable in current and future rates under various orders issued by state and federal regulators.

Commitments and Contingencies — The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with SFAS No. 5, "Accounting for Contingencies." For example, in 2002 the Company resolved a long standing contingency related to an environmental matter by entering into a fixed price contract to remediate the site while also settling on the funding of the project to be provided by the Company's insurance carrier. As a result, management estimates that this matter will not have a material adverse effect on the Company's financial position.

Forward-Looking Information

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

Consolidated Statements of Earnings

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

Year Ended December 31,	2002	2001	2000
Operating Revenues:			
Electric	$ 167,317	$ 183,780	$ 160,023
Gas	20,283	22,828	22,756
Other	786	414	162
Total Operating Revenues	188,386	207,022	182,941
Operating Expenses:			
Fuel and Purchased Power	114,598	132,947	110,280
Gas Purchased for Resale	11,143	13,827	13,492
Operation and Maintenance	25,667	25,000	24,545
Restructuring Charge	1,598	—	—
Depreciation and Amortization	14,911	12,767	11,964
Provisions for Taxes:			
Local Property and Other	4,731	4,666	4,967
Federal and State Income	2,490	3,421	3,413
Total Operating Expenses	175,138	192,628	168,661
Operating Income	13,248	14,394	14,280
Non-Operating Expenses:			
(Gain) Loss on Non-Utility Investments, net of tax	(82)	2,400	—
Other Non-Operating Expenses	185	170	244
Income Before Interest Expense and Extraordinary Item	13,145	11,824	14,036
Interest Expense, net	7,057	6,797	6,820
Income before Extraordinary Item	6,088	5,027	7,216
Extraordinary Item, net of tax	—	3,937	—
Net Income	6,088	1,090	7,216
Less: Dividends on Preferred Stock	253	257	263
Earnings Applicable to Common Shareholders	$ 5,835	$ 833	$ 6,953
Average Common Shares Outstanding - Basic	4,743,696	4,743,576	4,723,171
Average Common Shares Outstanding - Diluted	4,762,166	4,759,822	4,742,745

Earnings per Common Share

	2002	2001	2000
Net Income before Extraordinary Item	$ 1.23	$ 1.01	$ 1.47
Extraordinary Item, net of tax	—	(0.83)	—
Net Income	$ 1.23	$ 0.18	$ 1.47

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

Consolidated Balance Sheets *(000's)*

Assets

December 31,	2002	2001
Utility Plant:		
Electric	$ 193,152	$ 183,795
Gas	44,796	41,287
Common	27,573	28,529
Construction Work in Progress	5,658	1,887
Utility Plant	271,179	255,498
Less: Accumulated Depreciation	82,587	77,210
Net Utility Plant	188,592	178,288
Other Property and Investments	651	2,286
Current Assets:		
Cash	7,160	6,076
Accounts Receivable - Net of Allowance for Doubtful Accounts of $372 and $600	19,513	17,133
Refundable Taxes	4,851	2,432
Materials and Supplies	2,323	2,804
Prepayments	1,735	1,889
Accrued Revenue	4,842	1,330
Total Current Assets	40,424	31,664
Noncurrent Assets:		
Regulatory Assets	244,011	146,042
Prepaid Pension Costs	—	10,712
Debt Issuance Costs, net	1,755	1,826
Other Noncurrent Assets	5,350	5,944
Total Noncurrent Assets	251,116	164,524
TOTAL	$ 480,783	$ 376,762

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

Capitalization & Liabilities

December 31,	2002	2001
Capitalization:		
Common Stock Equity	**$ 74,350**	$ 74,746
Preferred Stock, Non-Redeemable, Non-Cumulative	**225**	225
Preferred Stock, Redeemable, Cumulative	**3,097**	3,384
Long-Term Debt, Less Current Portion	**104,226**	107,470
Total Capitalization	**181,898**	185,825
Current Liabilities:		
Long-Term Debt, Current Portion	**3,243**	3,224
Capitalized Leases, Current Portion	**800**	988
Accounts Payable	**14,221**	20,084
Short-Term Debt	**35,990**	13,800
Dividends Declared and Payable	**77**	109
Refundable Customer Deposits	**1,336**	1,393
Interest Payable	**1,311**	1,375
Other Current Liabilities	**9,062**	6,328
Total Current Liabilities	**66,040**	47,301
Deferred Income Taxes	**47,332**	47,113
Noncurrent Liabilities:		
Power Supply Buyout Obligations	**175,657**	88,779
Capitalized Leases, Less Current Portion	**2,534**	2,945
Other Noncurrent Liabilities	**7,322**	4,799
Total Noncurrent Liabilities	**185,513**	96,523
TOTAL	**$ 480,783**	$ 376,762

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

Consolidated Statements of Capitalization

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

December 31,	2002	2001
Common Stock Equity		
Common Stock, No Par Value (Authorized - 8,000,000 shares; Outstanding - 4,743,696 and 4,743,696 shares)	**$ 41,220**	$ 41,220
Stock Options	**990**	669
Retained Earnings	**32,140**	32,857
Total Common Stock Equity	**74,350**	74,746
Preferred Stock		
UES Preferred Stock, Non-Redeemable, Non-Cumulative:		
6.00% Series, $100 Par Value	**225**	225
UES Preferred Stock, Redeemable, Cumulative:		
8.70% Series, $100 Par Value	**215**	215
5.00% Series, $100 Par Value	**—**	91
6.00% Series, $100 Par Value	**—**	168
8.75% Series, $100 Par Value	**333**	333
8.25% Series, $100 Par Value	**385**	385
FG&E Preferred Stock, Redeemable, Cumulative:		
5.125% Series, $100 Par Value	**946**	960
8.00% Series, $100 Par Value	**1,218**	1,232
Total Preferred Stock	**3,322**	3,609
Long-Term Debt		
UES First Mortgage Bonds:		
Series I, 8.49%, Due October 14, 2024	**6,000**	6,000
Series J, 6.96%, Due September 1, 2028	**10,000**	10,000
Series K, 8.00%, Due May 1, 2031	**7,500**	7,500
Series L, 8.49%, Due October 14, 2024	**9,000**	9,000
Series M, 6.96%, Due September 1, 2028	**10,000**	10,000
Series N, 8.00%, Due May 1, 2031	**7,500**	7,500
FG&E Long-Term Notes:		
8.55% Notes, Due March 31, 2004	**6,000**	9,000
6.75% Notes, Due November 30, 2023	**19,000**	19,000
7.37% Notes, Due January 15, 2029	**12,000**	12,000
7.98% Notes, Due June 1, 2031	**14,000**	14,000
Unitil Realty Corp. Senior Secured Notes:		
8.00% Notes, Due August 1, 2017	**6,469**	6,694
Total Long-Term Debt	**107,469**	110,694
Less: Long-Term Debt, Current Portion	**3,243**	3,224
Total Long-Term Debt, Less Current Portion	**104,226**	107,470
Total Capitalization	**$ 181,898**	$ 185,825

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

Consolidated Statements of Cash Flows *(000's)*

Year Ended December 31,	**2002**	2001	2000
Cash Flows from Operating Activities:			
Net Income	**$ 6,088**	$ 1,090	$ 7,216
Adjustments to Reconcile Net Income to			
Cash Provided by Operating Activities:			
Depreciation and Amortization	**14,911**	12,767	11,964
Deferred Tax Provision	**856**	(607)	3,523
Noncash Stock Option Compensation Expenses	**321**	293	182
(Gain) Loss on Non-Utility Investments, net	**(82)**	2,400	—
Changes in Current Assets and Liabilities:			
Accounts Receivable	**(2,380)**	2,924	(3,427)
Prepayments and other Current Assets	**(960)**	(1,690)	(2,393)
Accrued Revenue	**(3,512)**	7,973	(6,340)
Accounts Payable	**(5,863)**	1,545	2,024
Interest Payable and other Current Liabilities	**2,670**	366	(145)
Other, net	**(2,481)**	(3,883)	(3,740)
Cash Provided by Operating Activities	**9,568**	23,178	8,864
Cash Flows from Investing Activities:			
Acquisitions of Property, Plant & Equipment	**(20,825)**	(19,890)	(21,092)
Proceeds from Sale of Electric Generation Assets	**—**	342	—
Proceeds (Acquisitions) on Investments, net	**1,535**	—	(1,157)
Cash (Used in) Investing Activities	**(19,290)**	(19,548)	(22,249)
Cash Flows from Financing Activities:			
Proceeds from (Repayment of) Short-Term Debt, net	**22,190**	(18,700)	22,000
Proceeds from Issuance of Long-Term Debt	**—**	29,000	—
Repayment of Long-Term Debt	**(3,225)**	(3,208)	(1,255)
Dividends Paid	**(6,831)**	(6,902)	(6,787)
Issuance of Common Stock, net	**—**	229	639
Retirement of Preferred Stock	**(293)**	(81)	(68)
Repayment of Capital Lease Obligations	**(1,035)**	(952)	(931)
Cash Provided by (Used In) Financing Activities	**10,806**	(614)	13,598
Net Increase in Cash	**1,084**	3,016	213
Cash at Beginning of Year	**6,076**	3,060	2,847
Cash at End of Year	**$ 7,160**	$ 6,076	$ 3,060
Supplemental Cash Flow Information:			
Interest Paid	**$ 9,356**	$ 8,988	$ 8,640
Income Taxes Paid	**$ 2,351**	$ 4,265	$ 827
Supplemental Schedule of Noncash Activities:			
Capital Leases Incurred	**$ 436**	$ 691	$ 363

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

Consolidated Statements of Changes in Common Stock Equity

(000's except number of shares)

	Common Shares	Stock Option Plan	Retained Earnings	Total
Balance at January 1, 2000	$ 40,352	$ 194	$ 38,129	**$ 78,675**
Net Income for 2000			7,216	**7,216**
Dividends on Preferred Shares			(263)	**(263)**
Dividends on Common Shares - at $1.38 per Share			(6,514)	**(6,514)**
Stock Option Plan		182		**182**
Issuance of 22,916 Common Shares (a)	639			**639**
Balance at December 31, 2000	40,991	376	38,568	**79,935**
Net Income after Extraordinary Item for 2001			1,090	**1,090**
Dividends on Preferred Shares			(257)	**(257)**
Dividends on Common Shares - at $1.38 per Share			(6,544)	**(6,544)**
Stock Option Plan		293		**293**
Issuance of 11,279 Common Shares (a)	287			**287**
Reacquired and retired Common Shares (b)	(58)			**(58)**
Balance at December 31, 2001	41,220	669	32,857	**74,746**
Net Income for 2002			6,088	**6,088**
Dividends on Preferred Shares			(253)	**(253)**
Dividends on Common Shares - at $1.38 per Share			(6,546)	**(6,546)**
Stock Option Plan		321		**321**
Premium paid for redemption of Preferred Shares (c)			(6)	**(6)**
Balance at December 31, 2002	$ 41,220	$ 990	$ 32,140	**$ 74,350**

(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.
(b) Shares repurchased in conjunction with the Company's interim stock repurchase program.
(c) Premium paid for the redemption of Exeter & Hampton Electric Company Preferred Shares.

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

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations — Unitil Corporation (Unitil or the Company) is registered with the Securities and Exchange Commission (SEC) as a public utility holding company under the Public Utility Holding Company Act of 1935 (1935 Act). The following companies are wholly-owned subsidiaries of Unitil: Unitil Energy Systems, Inc. (UES) (formed in 2002 by the combination and merger of Unitil's former utility subsidiaries Concord Electric Company (CECo) and Exeter & Hampton Electric Company (E&H)), Fitchburg Gas and Electric Light Company (FG&E), Unitil Power Corp. (UPC), Unitil Realty Corp. (Unitil Realty), Unitil Service Corp. (Unitil Service) and its non-regulated business unit Unitil Resources, Inc. (Unitil Resources). Usource, Inc. and Usource L.L.C. are subsidiaries of Unitil Resources.

Unitil's principal business is the retail sale and distribution of electricity and related services in several cities and towns in the seacoast and capital city areas of New Hampshire, and both electricity and gas and related services in north central Massachusetts, through Unitil's two wholly-owned retail distribution utility subsidiaries. The Company's wholesale electric power utility subsidiary, UPC, principally provides all the electric power supply requirements to UES for resale at retail.

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

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

Basis of Presentation

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

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

Massachusetts and New Hampshire have both passed utility industry restructuring legislation and the Company has filed and implemented its restructuring plans in both states. In Massachusetts, the Company is allowed to recover certain types of costs through ongoing assessments to be included in future regulated service rates. The Company is also deferring the recovery of certain restructuring related costs in order to meet the retail rate cap imposed under the Massachusetts restructuring legislation. Based on the recovery mechanism that allows recovery of all of its stranded costs and deferred costs related to restructuring, the Company has recorded regulatory assets that it expects to fully recover in future periods. The Company expects to continue to meet the criteria for the application of SFAS No. 71 for the distribution portion of its assets and operations for the foreseeable future. If a change in accounting were to occur to the distribution portion of the Company's operations, it could have a material adverse effect on the Company's earnings and retained earnings in that year and could have a material adverse effect on the Company's ongoing financial condition as well.

On January 25, 2002, the Company's New Hampshire electric utility subsidiaries, CECo, E&H and UPC, filed a comprehensive restructuring proposal with the NHPUC. This proposal included the introduction of customer choice consistent with the New Hampshire restructuring law, the divestiture of UPC's power supply portfolio, the recovery of stranded costs, the combination of CECo and E&H into a planned successor, UES, and new distribution rates for UES. On October 25, 2002, the NHPUC approved a multi-party settlement on all major issues in the proceeding. Under Unitil's approved restructuring plan, Unitil will divest its existing New Hampshire power supply portfolio and conduct a solicitation for new power supplies from which to meet its ongoing transition and default service energy obligations. In early 2003, Unitil will file for final NHPUC approval of the executed agreements resulting from these divestiture and solicitation processes, including final tariffs for stranded cost recovery and transition and default services. The implementation of customer choice is targeted for May 1, 2003.

Upon receipt of all requested approvals in the proceeding by the NHPUC, and the expiration of all periods of appeal with respect thereto, UES will implement retail choice and Unitil will withdraw its intervention in a pending federal court action, with prejudice. In June 1997, Unitil and other utilities in NH intervened as plaintiffs in a suit filed in U.S. District Court by Northeast Utilities' affiliate Public Service Company of New Hampshire for protection from the NHPUC Final Plan to restructure the New Hampshire electric utility industry. Although the NHPUC found that CECo and E&H were entitled to full interim stranded costs recovery, the NHPUC also made certain legal rulings, that, if implemented, could affect the Company's long-term ability to recover all of their stranded costs. The Unitil Settlement approved in October 2002, provides for full stranded cost recovery by UES, and otherwise resolves all of the issues in the federal court action.

	Asset Balances at December 31,	
Regulatory Assets consist of the following (000's)	**2002**	2001
Power Supply Buyout Obligations	**$ 175,657**	$ 88,779
Income Taxes	**24,799**	27,386
Recoverable Deferred Charges	**22,253**	18,103
Recoverable Generation-related Assets	**9,327**	11,774
Pension	**11,975**	—
Total Regulatory Assets	**$ 244,011**	$ 146,042

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

Revenue Recognition — Unitil's operating subsidiaries record electric and gas operating revenues based upon the amount of electricity and gas delivered to customers through the end of the accounting period. Usource, Unitil's competitive energy brokering subsidiary, records energy brokering revenues based upon the estimated amount of electricity and gas delivered to customers through the end of the accounting period.

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

Depreciation and Amortization—Depreciation provisions for Unitil'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: 2002 - 3.79%, 2001 - 3.75% and 2000 - 3.74%.

Amortization provisions include the recovery of a portion of FG&E's former investment in Seabrook Station, a nuclear generating unit, in rates to its customers through the Seabrook Amortization Surcharge as ordered by the MDTE. In addition, FG&E is amortizing the balance of its unrecovered electric generating related assets, which are recorded as Regulatory Assets, in accordance with its electric restructuring plan approved by the MDTE (See Note 15).

Stock-based Employee Compensation—Unitil accounts for stock-based employee compensation currently using the fair value based method (See Note 5).

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

Newly Issued Pronouncements—On June 29, 2001, the Financial Accounting Standards Board (FASB) approved for issuance SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." Significant provisions of these statements are as follows: all business combinations initiated after June 30, 2001, must use the purchase method of accounting; goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment annually using a fair value approach; other intangible assets will continue to be valued and amortized over their estimated lives. The Company has no goodwill recorded at December 31, 2002 and 2001. As a result, the adoption of these statements did not have any impact on the Company's financial position or results of operations. The merger of the Company's two New Hampshire utility subsidiaries, CECo and E&H, into UES in December 2002 was the combination of entities under the common control of Unitil Corporation and therefore all of the accounts of these businesses were combined at their historical cost.

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

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires that an impairment loss should be recognized if the carrying value of the asset is not recoverable from its undiscounted cash flows. The statement is effective for fiscal years beginning after December 15, 2001, with early adoption permitted. The Company has determined that the adoption of this statement will not have a material adverse impact on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company initiated a reorganization of management and administrative positions in the fourth quarter of 2002 and recognized a Restructuring Charge, discussed below, under the provisions of Emerging Issues Task Force

(EITF) Issue No. 94-3, the predecessor standard to SFAS 146.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method on reported results. The Company recognizes compensation cost at fair value at the date of grant.

Also in 2002, the FASB issued Interpretation 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Under FIN 45 guarantors are required to measure and recognize the fair value of guarantees at inception and provide new disclosures regarding the nature of any guarantees. FIN 45 is effective for financial statements of reporting periods ending after December 15, 2002. The Company has adopted the provisions of FIN 45.

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

Note 2: Restructuring Charge — 2002

In the fourth quarter of 2002, Unitil recognized a pre-tax Restructuring Charge of $1.6 million. The after-tax effect of the Restructuring Charge was a reduction of $0.20 in Earnings per Common Share, assuming full dilution.

In December 2002, the Company undertook a strategic review of its business operations and committed to a formal transition and reorganization plan (the Reorganization Plan) to streamline its management structure, in order to improve operating efficiency and to align the organization to meet ongoing business requirements. The Reorganization Plan resulted in the elimination of 19 management and administrative positions. As a result of the elimination of these positions, and consistent with existing Company policy, certain benefits are extended to the employees whose positions were eliminated. On January 8, 2003, the Company implemented the Reorganization Plan.

The $1.6 million pre-tax Restructuring Charge established a liability at December 31, 2002, to cover the disbursement of severance and employee benefits and related costs committed to under the Reorganization Plan, substantially all of which will be paid in fiscal 2003. At December 31, 2002, the Restructuring Charge of $1.6 million is included in Other Current Liabilities.

Note 3: Extraordinary Item — 2001

In November 1997, the Massachusetts Legislature enacted the Massachusetts Electric Restructuring Act of 1997 (the Restructuring Act). The Restructuring Act required all electric utilities to file a restructuring plan with the MDTE by December 31, 1997. Among other things, the Restructuring Act required all Massachusetts electric utilities to sell all of their electric generation assets and to restructure their utility operations to provide direct retail access to their customers by all qualified generation suppliers.

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

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

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

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

Note 4: Investment Write-down and Sale of Equity Stake in Enermetrix – 2001

Beginning in 1998, Unitil invested $5.5 million in Enermetrix, Inc. (Enermetrix), an energy technology start-up enterprise. In accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” the Company recorded a non-cash charge of $3.7 million, or $2.4 million, net of tax, in the fourth quarter of 2001 to recognize the decrease in fair value of its non-utility investment in Enermetrix.

On April 11, 2002, the Company sold its equity ownership in Enermetrix for $1.5 million in cash and improved commercial terms for use of the Enermetrix Software Network. As a result of the sale, in 2002, the Company recognized the benefit of approximately $1.3 million of this capital loss as a carryback against capital gains in its 2002 tax return.

Note 5: Common Stock

New Shares Issued — During 2002, Unitil did not issue any additional shares of its common stock. The Company raised $287,142 and $639,000 of additional common equity capital through the issuance of 11,279 and 22,916 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan (DRP) during 2001 and 2000, respectively. The DRP 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.

Shares Repurchased, Cancelled and Retired — During 2002, Unitil did not repurchase, cancel and retire any of its common stock. During 2001, in conjunction with the SEC’s Emergency Orders of September 14 and 21, 2001, which suspended the applicability of certain of the conditions contained in its Rule 10b-18, the Company implemented an interim Common Stock repurchase program. Under this program, the Company used its cash on hand to repurchase, cancel and retire 2,500 shares of its outstanding Common Stock at a total cost of $58,500. The SEC has since lifted its suspension of the aforementioned conditions and accordingly, the Company’s interim Common Stock repurchase program is no longer in effect.

Stock-Based Compensation Plans — Unitil maintains two stock option plans, which provide for the granting of options to key employees. Details of the plan are as follows:

Unitil Corporation Key Employee Stock Option Plan — The “Unitil Corporation Key Employee Stock Option Plan” was a 10-year plan which began in March 1989. The number of shares granted under this plan, as well as the terms and conditions of each grant, were determined by the Key Employee Stock Option Plan Committee of the Board of Directors, subject to plan limitations. All options granted under this plan vested upon grant. The 10-year period in which options could be granted under this plan expired in March 1999. The expiration date of the remaining outstanding options is November 3, 2007. The plan provides dividend equivalents on options granted, which are recorded at fair value as compensation expense. The total compensation expenses recorded by the Company with respect to this plan were $43,000, $42,000 and $38,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

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

	2002	2001	2000
Beginning Options Outstanding and Exercisable	**30,996**	29,358	27,976
Dividend Equivalents Earned	**1,649**	1,638	1,382
Options Exercised	**—**	—	—
Ending Options Outstanding and Exercisable	**32,645**	30,996	29,358
Range of Option Exercise Price per Share	**$12.11-$18.28**	$12.11-$18.28	$12.11-$18.28
Weighted Average Remaining Contractual Life	**4.9 years**	5.9 years	6.9 years

Unitil Corporation 1998 Stock Option Plan — The "Unitil Corporation 1998 Stock Option Plan" became effective on December 11, 1998. The number of shares granted under this plan, as well as the terms and conditions of each grant, are determined by the Compensation Committee of the Board of Directors, subject to plan limitations. All options granted under this plan vest over a three-year period from the date of the grant, with 25% vesting on the first anniversary of the grant, 25% vesting on the second anniversary, and 50% vesting on the third anniversary. Under the terms of this plan, key employees may be granted options to purchase the Company's Common Stock at no less than 100% of the market price on the date the option is granted. All options must be exercised no later than 10 years after the date on which they were granted. The total compensation expenses recorded by the Company with respect to this plan were $278,000, $251,000 and $144,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

	2002		2001		2000	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Beginning Options Outstanding	**172,500**	**$ 26.99**	113,500	$ 27.64	62,000	$ 23.38
Options Granted	**—**	**—**	60,000	$ 25.88	55,000	$ 32.18
Options Forfeited	**—**	**—**	(1,000)	$ 33.56	(3,500)	$ 23.38
Ending Options Outstanding	**172,500**	**$ 26.99**	172,500	$ 26.99	113,500	$ 27.64
Options Vested and Exercisable - end of year	**100,500**	**$ 26.11**				

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

The following summarizes certain data for options outstanding at December 31, 2002:

Range of Exercise Prices	Options Outstanding	Weighted Average Exercise Price	Options Vested and Exercisable	Weighted Average Exercise Price	Remaining Contractual Life
$20.00-$24.99	58,500	$23.38	58,500	$23.38	6.2 years
$25.00-$29.99	60,000	$25.88	15,000	$25.88	8.1 years
$30.00-$34.99	54,000	$32.15	27,000	$32.15	7.1 years
	172,500		100,500		

There were no options granted during 2002. The weighted average fair value per share of options granted during 2001 and 2000 was $4.66 and $7.13, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes model with the following weighted average assumptions:

	2002	2001	2000
Expected Life (years)	**N/A**	10.0	10.0
Interest Rate	**N/A**	5.8%	6.0%
Volatility	**N/A**	23.6%	22.3%
Dividend Yield	**N/A**	5.3%	4.3%

Restrictions on Retained Earnings — Unitil Corporation has no restriction on the payment of common dividends from retained earnings.

Its two retail distribution subsidiaries, UES and FG&E, do have restrictions. Under the terms of the First Mortgage Bond Indentures, UES had $9,313,000 available for the payment of cash dividends on its Common Stock at December 31, 2002. Under the terms of long-term debt purchase agreements, FG&E had $5,144,000 of retained earnings available for the payment of cash dividends on its Common Stock at December 31, 2002.

In addition, under the terms of the NHPUC's Order in Docket DE 01-247, UES' ability to issue dividends on its common stock is restricted to an annual maximum of $1,794,000. This restriction will remain in place until UES files its next base rate case with the NHPUC, which UES is required to file within the next five years.

Note 6: Preferred Stock

Unitil's two distribution operating subsidiaries, UES and FG&E, have redeemable Cumulative Preferred Stock outstanding and one subsidiary, UES, has a Non-Redeemable, Non-Cumulative Preferred Stock issue outstanding. These 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 2002, 2001 and 2000 related to the annual redemption offer were $34,500, $81,000 and $67,500, respectively. The aggregate amount of sinking fund requirements of the Redeemable Cumulative Preferred Stock for each of the five years following 2002 are $192,000 per year.

Also, during 2002, in conjunction with the merger of E&H into CECo to form UES, the 5% and 6% series of Redeemable Cumulative Preferred Stock were fully-redeemed at par plus premiums of 2% and 3%, respectively. These redemptions and related premiums resulted in an aggregate expenditure of $258,720.

Note 7: Long-Term Debt and Interest Expense

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

Total aggregate amount of sinking fund payments relating to bond issues and normal scheduled long-term debt repayments amounted to $3,225,444, $3,208,000 and $1,254,946 in 2002, 2001 and 2000, respectively.

The aggregate amount of bond sinking fund requirements and normal scheduled long-term debt repayments for each of the five years following 2002 is: 2003 - $3,244,156, 2004 - $3,264, 421, 2005 - $286,368, 2006 - $310,136 and 2007 - $335,877.

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, 2002 and 2001.

The Company also provides limited guarantees on certain energy contracts entered into by its regulated subsidiary companies. The Company's policy is to limit these guarantees to two years or less. As of December 31, 2002, there are $1.8 million of guarantees outstanding and these guarantees extend through October 15, 2004.

Interest Expense, net—Interest expense is presented in the financial statements, net of Interest Income. In 2002, Interest Expense, net, increased primarily due to the refinancing of lower cost short-term debt with higher cost long-term debt and additional borrowings to support the Company's capital requirements. Total interest expense was $9.3 million, $9.1 million and $8.6 million in 2002, 2001 and 2000, respectively, and increased due to higher debt outstanding in each of those years. Interest income was $2.3 million, $2.3 million and $1.8 million in 2002, 2001 and 2000, respectively, primarily reflecting interest earned on recoverable deferred charge balances related to industry restructuring.

Note 8: Credit Arrangements

At December 31, 2002, Unitil had unsecured committed bank lines for short-term debt in the aggregate amount of $38.0 million with three banks for which it pays commitment fees. The weighted average interest rates on all short-term borrowings were 2.18%, 4.78% and 6.57% during 2002, 2001 and 2000, respectively.

Note 9: Leases

Unitil's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their machinery and office equipment. FG&E had a 22-year facility lease in which the Primary Term was scheduled to end on January 31, 2003. On February 1, 2002, a 10-year Extended Term commenced extending the lease term through February 2012. Furthermore, the amended lease agreement allows for three additional five-year renewal periods 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:

	Asset Balances at December 31,	
Classes of Utility Plant (000's)	**2002**	2001
Common Plant	**$ 7,095**	$ 7,146
Less: Accumulated Depreciation	**3,761**	3,213
Net Plant	**$ 3,334**	$ 3,933

The following is a schedule of future minimum lease payments and present value of net minimum lease payments under capital leases, as of December 31, 2002:

Year Ending December 31, (000's)	
2003	$1,130
2004	862
2005	602
2006	310
2007	274
2008 - 2012	1,356
Total Minimum Lease Payments	4,534
Less: Amount Representing Interest	1,200
Present Value of Net Minimum Lease Payments	$3,334

Total rental expense charged to operations for the years ended December 31, 2002, 2001 and 2000 amounted to $4,000, $12,000 and $21,000, respectively. There are no material future operating lease payment obligations at December 31, 2002.

Note 10: Income Taxes

Federal Income Taxes were provided for the following items for the years ended December 31, 2002, 2001 and 2000, respectively:

	2002	2001	2000
Current Federal Tax Provision (Benefit) (000's):			
Operating Income	**$ 1,960**	$ 3,566	$ (9)
Amortization of Investment Tax Credits	**(51)**	(153)	(256)
Total Current Federal Tax Provision (Benefit)	**1,909**	3,413	(265)
Deferred Federal Tax Provision (000's):			
Accelerated Tax Depreciation	**68**	(401)	183
Abandoned Properties	**(705)**	(767)	(863)
Accrued Revenue	**1,118**	691	3,604
Allowance for Funds Used During Construction	**(32)**	(42)	(48)
Post-Retirement Benefits Other Than Pensions	**(38)**	(34)	(29)
Deferred Pensions	**86**	89	275
Regulatory Assets and Liabilities	**70**	37	(186)
Deferred Gain on Sale of New Haven Harbor	**—**	—	125
Contributions in Aid of Construction	**(231)**	(251)	(106)
Difference in Prior Year Taxes as Filed	**72**	312	149
Other	**(119)**	(197)	(38)
Total Deferred Federal Tax Provision (Benefit)	**289**	(563)	3,066
Total Federal Tax Provision	**$ 2,198**	$ 2,850	$ 2,801

The components of the Federal and State income tax provisions reflected as operating expenses in the accompanying consolidated statements of earnings for the years ended December 31, 2002, 2001 and 2000 were as follows:

Federal and State Tax Provisions (000's)	2002	2001	2000
Federal			
Current	**$ 1,960**	$ 3,566	$ (9)
Deferred	**289**	(563)	3,066
Amortization of Investment Tax Credits	**(51)**	(153)	(256)
Total Federal Tax Provision	**2,198**	2,850	2,801
State			
Current	**(275)**	615	155
Deferred	**567**	(44)	457
Total State Tax Provision	**292**	571	612
Federal and State Income Taxes - Operating Expenses	**$ 2,490**	$ 3,421	$ 3,413

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

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

	2002	2001	2000
Statutory Federal Income Tax Rate	**34%**	34%	34%
Income Tax Effects of:			
State Income Taxes, Net	**2**	4	4
Investment Tax Credits	**(1)**	(1)	(2)
Abandoned Property	**(8)**	(6)	(6)
Other, Net	**2**	(1)	2
Effective Income Tax Rate	**29%**	30%	32%

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

Deferred Income Taxes (000's)	**2002**	2001
Accelerated Depreciation	**$ 24,140**	$ 24,020
Abandoned Property	**2,547**	4,845
Contributions in Aid of Construction	**(3,654)**	(3,360)
Percentage Repair Allowance	**2,038**	2,165
Retirement Loss – Plant Assets	**2,924**	3,177
Employee Benefit Plans	**3,624**	3,551
Regulatory Assets and Liabilities	**7,087**	7,828
Deferred Charges	**7,820**	5,954
Investment Write-down	**—**	(1,236)
Other	**806**	169
Total Deferred Income Tax	**$ 47,332**	$ 47,113

Due to a change in New Hampshire State tax regulations and in accordance with SFAS No. 109, "Accounting for Income Taxes," the Company recorded an adjustment to Deferred Income Taxes and an offsetting adjustment to Regulatory Assets of $6.1 million in 2001.

Note 11: Energy Supply

Massachusetts:

Joint Owned Units — FG&E is participating, on a tenancy-in-common basis, with other New England utilities, in the ownership of one generating unit. Wyman Unit No. 4 is an oil-fired station that has been in commercial operation since December 1978. FG&E's 0.217% interest in Millstone Nuclear Generating Station Unit No. 3 (Millstone 3), which has been in commercial operation since April 1986, was sold to Dominion Resources, Inc. effective April 1, 2001. Kilowatt-hour generation and operating expenses of the joint ownership unit is divided on the same basis as ownership. FG&E's proportionate costs are reflected in the Consolidated Statements of Earnings. In accordance with the Massachusetts Restructuring Act, and pursuant to the power supply divestiture discussed below, FG&E began selling the entire output from its joint ownership generating units on February 1, 2000. Revenues from this sale reflect collection of the costs associated with FG&E's ownership interest in these generation units. Accordingly, these expenses do not have an impact on net income. Information with respect to FG&E's ownership in Wyman Unit No. 4, at December 31, 2002, is shown below:

Joint Ownership Unit	**State**	**Proportionate Ownership %**	**Share of Total MW**	**Company's Net Book Value (000's)**
Wyman Unit No. 4	ME	0.1822	1.13	$71

Purchased Power and Gas Supply Contracts — FG&E has commitments under long-term contracts for the purchase of electricity and gas from various suppliers. Generally, these contracts are for fixed periods and require payment of demand and energy charges. Total annual costs under these contracts are included in Fuel and Purchased Power and Gas Purchased for Resale in the Consolidated Statements of Earnings. These costs are recoverable in revenues under various cost recovery mechanisms. In accordance with the Restructuring Act, and pursuant to the power supply divestiture discussed below, FG&E began selling the entire output from its power supply contracts on February 1, 2000.

Under the Restructuring Act, customers not purchasing electric power from competitive suppliers are eligible either for Standard Offer Service (SOS) or for Default Service. Many of FG&E's customers are currently eligible for SOS service. On March 1, 1999, FG&E entered into a contract with Constellation Power Source to procure power needed to serve the SOS load. The contract will continue through February 28, 2005. The power required to meet Default Service is currently being procured through six-month contracts that expire May 31, 2003. In accordance with MDTE regulations, FG&E will conduct periodic Request for Proposals (RFP) to procure Default Service at market prices. The next RFP will be used to procure Default Service effective June 1, 2003.

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

FG&E has been allowed recovery of its transition costs, including the above-market or stranded generation and power-supply related costs, via a non-bypassable uniform transition charge. The recoverable transition costs, which have been recorded on FG&E's balance sheet at December 31,2002, as Regulatory Assets, include $81.1 million of purchased power contracts and $12.3 million of recoverable generation-related assets.

New Hampshire:

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

UES, upon the implementation of customer choice, will be required to acquire and provide transition service power supply to its customers for up to three years. All existing and new customers will be eligible to receive transition service. To the extent that UES customers choose a third party supplier for their power supply and then subsequently return to UES for service, UES will be obligated to provide default service power supply to these customers.

Power Supply Divestiture — On January 25, 2002, UPC, along with CECo and E&H, filed a comprehensive electric restructuring proposal under which its long-term power supply contracts would be sold and/or assigned through a competitive auction process to a third party and the remaining financial obligations recovered in their entirety through a retail stranded cost charge.

This proposal included the introduction of customer choice consistent with the New Hampshire restructuring law, the divestiture of UPC's power supply portfolio, the recovery of stranded costs, the combination of CECo and E&H into a planned successor, UES, and new distribution rates for UES. On October 25, 2002, the NHPUC approved a multi-party settlement on all major issues in the proceeding. Under Unitil's approved restructuring plan, Unitil will divest its existing power supply portfolio and conduct a solicitation for new power supplies from which to meet its ongoing transition and default service energy obligations. On February 26, 2003, Unitil filed for final NHPUC approval of the executed agreements resulting from these divestiture and solicitation processes, including final tariffs for stranded cost recovery and transition and default services. The filing proposed a recovery period of approximately eight years for stranded costs. The implementation of customer choice is targeted for May 1, 2003.

The Unitil Settlement approved in October 2002, provides for full stranded cost recovery by UES, and otherwise resolves all of the issues in the federal court action. The Company has estimated its recoverable stranded costs at $94.5 million, which have been recorded on UES' balance sheet as Regulatory Assets and Power Supply Buyout Obligations.

Note 12: Benefit Plans

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

The following table provides the components of net periodic expense (income) for the plan for years 2002, 2001 and 2000:

Net Periodic Expense (Income) (000's):	**2002**	2001	2000
Service Cost	**$ 1,116**	$ 914	$ 850
Interest Cost	**2,797**	2,639	2,552
Expected Return on Plan Assets	**(4,181)**	(4,439)	(4,356)
Amortization of Transition Obligation	**—**	84	85
Amortization of Prior-Service Cost	**102**	96	98
Recognized Net Actuarial (Gain)	**—**	(10)	(105)
Net Periodic Benefit Income	**$ (166)**	$ (716)	$ (876)
Reconciliation of Projected Benefit Obligations (000's):			
Beginning of Year	**$ 38,922**	$ 35,348	$ 33,371
Service Cost	**1,116**	914	850
Interest Cost	**2,797**	2,639	2,552
Amendments	**78**	—	(80)
Actuarial (Gain) Loss	**1,997**	2,173	749
Benefit Payments	**(2,165)**	(2,152)	(2,094)
End of Year	**$ 42,745**	$ 38,922	$ 35,348
Reconciliation of Fair Value of Plan Assets (000's):			
Beginning of Year	**$ 40,943**	$ 45,422	$ 45,783
Actual Return on Plan Assets	**(4,534)**	(2,327)	1,733
Benefit Payments	**(2,165)**	(2,152)	(2,094)
End of Year	**$ 34,244**	$ 40,943	$ 45,422
Funded Status (000's):			
Funded Status at December 31	**$ (8,501)**	$ 2,021	$ 10,074
Unrecognized Transition Obligation	**—**	—	84
Unrecognized Prior-Service Cost	**919**	942	1,038
Unrecognized Loss (Gain)	**18,461**	7,749	(1,200)
Subtotal	**10,879**	10,712	$ 9,996
Effect of Regulatory Order	**(10,879)**	—	—
Prepaid Pension Cost	**$ —**	$ 10,712	$ 9,996

Unitil had an Accumulated Benefit Obligation (ABO) of $35.3 million, $31.3 million and $29.5 million at December 31, 2002, 2001 and 2000, respectively. The Effect of Regulatory Order, noted in the table above, is discussed below.

In December 2002, FG&E and UES filed requests with their respective state regulatory commissions for approval of an accounting order to mitigate certain accounting requirements related to pension plan assets which have been triggered by the substantial decline in the capital markets. Due to this decline, at December 31, 2002, the Company's ABO of $35.3 million exceeded its Fair Value of Plan Assets of $34.2 million, which created an additional minimum liability of $1.1 million to be recognized for pension accounting purposes under SFAS No. 87. The respective state regulatory commissions approved these requests in December 2002. These approvals allow FG&E and UES to treat its additional minimum pension liability and Prepaid Pension Costs as Regulatory Assets under SFAS No. 71 and avoid the reduction in equity through comprehensive income that would otherwise be required by SFAS No. 87. These regulatory Orders do not pre-approve the amount of pension expense to be recovered in future rates. Such recovery will be subject to review and approval in future rate proceedings. Based on these approvals, the Company included the additional minimum pension liabilities of $1.1 million plus Prepaid Pension Costs of $10.9 million, or a total of $12.0 million, in Regulatory Assets on its balance sheet.

Plan assets are primarily made up of 60% equity and 40% fixed income investments. Fluctuations in actual equity market returns as well as changes in general interest rates may result in increased or decreased pension benefit costs and cash funding requirements in future periods. Likewise, changes in assumptions regarding discount rates and expected rates of return on plan assets could also increase or decrease pension benefit costs and cash funding requirements in future periods. The weighted average discount rates used in determining the Projected Benefit Obligation in 2002, 2001 and 2000 were 7.00%, 7.25% and 7.75%, respectively. The rate of increase in future compensation levels was 4.00% and the expected long-term rate of return on assets was 9.25% in 2002, 2001 and 2000.

Unitil Service has a Supplemental Executive Retirement Plan (SERP). The SERP is an unfunded retirement plan with participation limited to executives selected by the Board of Directors. The cost associated with the SERP amounted to approximately $137,000, $136,000 and $112,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Employee 401(k) Tax Deferred Savings Plan—Unitil sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code, covering substantially all of the Company's employees. Participants may elect to defer current compensation by contributing to the plan. The Company matches contributions, with a maximum matching contribution of 3% of current compensation. Employees may direct, at their sole discretion, the investment of their savings plan balances both the employer and employee portions into a variety of investment options, including a Company Common Stock fund. Participants are 100% vested in contributions made on their behalf, once they have completed three years of service. The Company's share of contributions to the plan were $483,000, $446,000 and $425,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Post-Retirement Benefits — Unitil's subsidiaries provide health care benefits to retirees for a 12-month period following their retirement. The Company's subsidiaries continue to provide life insurance coverage to retirees. Life insurance and limited health care post-retirement benefits require the Company to accrue post-retirement benefits during the employee's years of service with the Company and the recognition of the actuarially determined total post-retirement benefit obligation earned by existing retirees. At December 31, 2002, 2001 and 2000, the accumulated post-retirement benefit obligation (transition obligation) was approximately $214,000, $235,000 and $257,000, respectively, and the period cost associated with these benefits for 2002, 2001 and 2000 was approximately $119,000, $107,000 and $90,000, respectively. This obligation is being recognized on a delayed basis over the average remaining service period of active participants, and such period will not exceed 20 years.

In addition, the Company made payments of $1.2 million, $1.0 million and $0.9 million in 2002, 2001 and 2000 respectively, to the Unitil Retiree Trust (URT) in return for certain advisory services rendered to the Company in those years. URT is an organization of retirees, incorporated in 1993, to advise Unitil Corporation regarding customer service and retirement issues and to provide social, health and welfare benefits to its members, who are eligible former employees of the Company. URT is under the direction of an independent Board of Trustees whose voting members are comprised of former employees of the Company, elected by and from the membership of URT. URT is not a subsidiary of Unitil Corporation.

Note 13: Earnings Per Share

The following table reconciles basic and diluted earnings per share, assuming all outstanding stock options were converted to common shares per SFAS No. 128, "Earnings per Share."

(000's except share and per share data)	2002	2001	2000
Income before Extraordinary Item	**$ 5,835**	$ 4,770	$ 6,953
Extraordinary Item, net of tax	**$ —**	$ (3,937)	—
Earnings Available to Common Shareholders	**$ 5,835**	$ 833	$ 6,953
Weighted Average Common Shares Outstanding - Basic	**4,743,696**	4,743,576	4,723,171
Plus: Diluted Effect of Incremental Shares - from Assumed Conversion	**18,470**	16,246	19,574
Weighted Average Common Shares Outstanding - Diluted	**4,762,166**	4,759,822	4,742,745
Earnings per Share:			
Income before Extraordinary Item	**$ 1.23**	$ 1.01	$ 1.47
Extraordinary Item, net of tax	**$ —**	$ (0.83)	$ —
Earnings Available to Common Shareholders	**$ 1.23**	$ 0.18	$ 1.47

Weighted average options to purchase 54,000, 114,000 and 55,000 shares of Common Stock were outstanding during 2002, 2001 and 2000, respectively, but were not included in the computation of Weighted Average Common Shares Outstanding for purposes of computing diluted earnings per share, because the effect would have been antidilutive.

Note 14: Segment Information

Unitil reported four segments: utility electric operations, utility gas operations, other, and non-regulated. Unitil is engaged principally in the retail sale and distribution of electricity in New Hampshire and both electric and gas service in Massachusetts through its retail distribution subsidiaries UES and FG&E. The Company's wholesale electric power subsidiary, UPC, principally provides all the electric power supply requirements to UES for resale at retail. Unitil Resources provides an energy brokering service, through Usource, as well as various energy consulting activities. Unitil Realty and Unitil Service provide centralized facilities, operations and administrative services to support the affiliated Unitil companies.

Unitil Realty and Unitil Service are included in the "Other" column of the table below. Unitil Service provides centralized management and administrative services, including information systems management and financial record keeping. Unitil Realty owns certain real estate, principally the Company's corporate headquarters. Unitil Resources and Usource are included in the Non-Regulated column below.

The segments follow the same accounting policies as described in the Summary of Significant Accounting Policies. Intersegment sales take place at cost and the effects of all intersegment and/or intercompany transactions are eliminated in the consolidated financial statements. Segment profit or loss is based on profit or loss from operations after income taxes. Expenses used to determine operating income before taxes are charged directly to each segment or are allocated based on factors under the 1935 Act rules and contained in cost-of-service studies, which were included in rate applications approved by the NHPUC and MDTE. Assets allocated to each segment are based upon specific identification of such assets provided by Company records.

The following table provides significant segment financial data for the years ended December 31, 2002, 2001 and 2000:

	Electric	Gas	Other	Non-Regulated	Eliminations	Total
Year Ended December 31, 2002 (000's)						
Revenues	**$ 167,317**	**$ 20,283**	**$ 30**	**$ 756**		**$ 188,386**
Depreciation and Amortization	**10,793**	**1,998**	**1,922**	**198**		**14,911**
Interest, net	**4,693**	**1,692**	**654**	**18**		**7,057**
Income Taxes	**3,519**	**(458)**	**(46)**	**(525)**		**2,490**
Segment Profit	**6,249**	**(206)**	**456**	**(664)**		**5,835**
Identifiable Segment Assets	**384,862**	**85,366**	**24,500**	**1,958**	**(15,903)**	**480,783**
Capital Expenditures	**16,676**	**3,859**	**290**	**—**		**20,825**
Year Ended December 31, 2001 (000's)						
Revenues	$ 183,780	$ 22,828	$ 30	$ 384		$ 207,022
Depreciation and Amortization	9,025	1,760	1,753	229		12,767
Interest, net	4,388	1,576	829	4		6,797
Income Taxes	4,527	(457)	2	(651)		3,421
Segment Profit	8,771	(771)	172	(1,002)		7,170
Investment Write-down, net of tax	—	—	(2,400)	—		(2,400)
Extraordinary Item, net of tax	(3,937)	—	—	—		(3,937)
Identifiable Segment Assets	288,013	87,851	23,679	834	(23,615)	376,762
Capital Expenditures	14,328	4,817	745	—		19,890
Year Ended December 31, 2000 (000's)						
Revenues	$ 160,023	$ 22,756	$ 31	$ 131		$ 182,941
Depreciation and Amortization	8,815	1,575	1,344	230		11,964
Interest, net	4,797	1,370	627	26		6,820
Income Taxes	4,051	199	14	(851)		3,413
Segment Profit	7,923	662	46	(1,678)		6,953
Identifiable Segment Assets	286,437	89,917	24,079	994	(18,460)	382,967
Capital Expenditures	14,066	3,821	3,205	—		21,092

Note 15: Commitments and Contingencies

Regulatory Matters

The Unitil Companies are regulated by various federal and state agencies, including the SEC, the FERC and state regulatory authorities with jurisdiction over public utilities, including the NHPUC and the MDTE. In recent years, there has been significant legislative and regulatory activity to restructure the utility industry in order to introduce greater competition in the supply and sale of electricity and gas, while continuing to regulate the distribution operations of Unitil's utility operating subsidiaries. Unitil implemented the restructuring of its electric operations in Massachusetts in 1998 and is implementing a restructuring settlement for its New Hampshire electric operations that is expected to be effective on May 1, 2003.

Massachusetts Electric Operations Restructuring — Beginning March 1, 1998, FG&E implemented its Restructuring Plan under the Massachusetts Restructuring Act. FG&E completed the divestiture of its entire regulated power supply business, including its nuclear investment under the Restructuring Plan. All FG&E distribution customers must pay a transition charge that provides for the recovery of costs associated with FG&E's power portfolio which were stranded as a result of the divestiture of those assets. The plant and Regulatory Asset balances that will be recovered through the transition charge have been approved by the MDTE as part of FG&E's annual Reconciliation Filings. The Restructuring Act also requires FG&E to obtain power for retail customers who choose not to buy energy from a competitive supplier through either SOS or Default Service. FG&E must provide SOS through February 2005 at rate levels which guarantee rate reductions required by the Restructuring Act. New distribution customers and customers no longer eligible for SOS are eligible to receive Default Service at prices set periodically based on market solicitations as approved by regulators. As of December 31, 2002, competitive suppliers were serving approximately 20% of FG&E's load, mainly for large industrial customers.

As a result of the restructuring and divestiture of FG&E's entire generation and purchased power portfolio, FG&E has accelerated the amortization of its stranded electric generation assets and its abandoned investment in Seabrook Station, a nuclear generating unit. FG&E earns an authorized rate of return on the unamortized balance of these Regulatory Assets. In addition, as a result of the rate reduction and rate cap requirements of the Restructuring Act, FG&E has been authorized to defer the recovery of a portion of its transition costs and SOS costs. These unrecovered amounts are also recorded as Regulatory Assets and earn authorized carrying charges until their subsequent recovery in future periods. In 2002, Unitil's earnings derived from these generation-related Regulatory Assets, including carrying charges earned on deferred transition costs and SOS costs, represented approximately 10% of net income. The value of FG&E's Regulatory Assets is approximately $128 million at December 31, 2002, and is expected to be amortized and recovered over the next three to nine years, through 2012. Earnings from this segment of FG&E's utility business will continue to decline and ultimately cease.

FG&E made a total of four Reconciliation Filings in 1999, 2000, 2001 and 2002. Rate adjustments were approved for effect during the subsequent year, subject to further investigation. In October 2001, the MDTE issued a final Order on FG&E's 1999 Reconciliation Filing which determined the final treatment of Regulatory Assets attributable to stranded generation costs, purchased power costs, and related expenses for the 1999, and future, Reconciliation Filings. FG&E's 2001 Reconciliation Filing, submitted on December 2, 2001, recasts its rates from 1998 through 2001 in compliance with the MDTE's final Order on its 1999 filing. On October 15, 2002, the MDTE issued an Order approving a settlement agreement regarding the Company's 2001 filing. Under the approved settlement, FG&E agreed to reduce the carrying charge on deferred transition costs that will be recovered from customers in future years. This change does not affect current electric rates. The MDTE's October 2002 Order and associated settlement resolve many of the issues which otherwise might have been contested in FG&E's future Reconciliation Filings.

FG&E submitted its 2002 Reconciliation Filing on December 20, 2002. Rate adjustments were approved for effect on January 1, 2003, subject to investigation, resulting in a rate reduction of approximately 4.4% for residential SOS customers. The reduction is due to a decrease in the SOS fuel adjustment, which is not subject to the rate cap, and does not affect net income.

Massachusetts Gas Operations Restructuring — Following a three year state-wide collaborative process on the unbundling, or separation, of discrete services offered by natural gas local distribution companies (LDCs), the MDTE approved regulations and tariffs for FG&E and other LDCs to provide full customer choice effective November 1, 2000. The MDTE ruled that LDCs would continue to have an obligation to provide gas supply and delivery services for a five-year transition period, with a review after three years. This review is expected to be initiated in late 2003. The MDTE also required mandatory assignment of LDCs' pipeline capacity to competitive marketers supplying customers during the transition period. This mandatory capacity assignment protects LDCs from exposure to certain stranded gas supply costs during the transition period.

New Hampshire Restructuring — On January 25, 2002, the Company's New Hampshire electric utility subsidiaries, CECo, E&H and UPC, filed a comprehensive restructuring proposal with the NHPUC. This proposal included the introduction of customer choice consistent with New Hampshire's electric utility industry restructuring law, the divestiture of UPC's power supply portfolio, the recovery of stranded costs, the merger of CECo and E&H into one distribution company, UES, and new distribution rates for UES. On October 25, 2002, the NHPUC approved a multi-party settlement on all major issues in the proceeding, including stranded cost recovery for purchased power contracts. The Company estimates that these recoverable stranded costs are approximately $94.5 million and these were recorded as Power Supply Buyout Obligations and Regulatory Assets at December 31, 2002.

Under Unitil's approved restructuring plan, Unitil also agreed to divest its existing power supply portfolio and conduct a solicitation for new power supplies from which to meet its ongoing Transition and Default Service energy obligations. On February 26, 2003, Unitil filed for final NHPUC approval of the executed agreements resulting from these divestiture and solicitation processes, including final tariffs for stranded cost recovery and Transition and Default Services. The filing proposed a recovery period of approximately eight years for stranded costs. The implementation of customer choice for UES customers is targeted for May 1, 2003.

In June 1997, Unitil and other New Hampshire utilities intervened as plaintiffs in a suit filed in U.S. District Court by Northeast Utilities' affiliate Public Service Company of New Hampshire for protection from the NHPUC's Final Plan to restructure the New Hampshire electric utility industry. Although the NHPUC found that CECo and E&H were entitled to full interim stranded cost recovery, the NHPUC also made certain legal rulings, that, if implemented, could affect CECo's and E&H's long-term ability to recover all of their stranded costs. The Unitil Settlement approved in October 2002, otherwise resolves all of the issues in the federal court action. Upon receipt of all requested approvals in the proceeding by the NHPUC, and the expiration of all periods of appeal with respect thereto, UES will implement retail choice and Unitil will withdraw its intervention in this federal court action, with prejudice.

Wholesale Power Market Restructuring — Unitil has also been a participant in the restructuring of the wholesale power market and transmission system in New England, which is subject to FERC jurisdiction. New wholesale markets structured pursuant to FERC's Standard Market Design are expected to be implemented in the New England Power Pool during the first half of 2003 under the general supervision of an Independent System Operator and the regulatory oversight of the FERC.

Rate Proceedings — Prior to 2002, the last formal regulatory filings initiated by the Company to increase base rates for Unitil's retail electric operating subsidiaries occurred in 1985 for CECo, 1984 for FG&E, and 1981 for E&H. The last distribution base rate increase request for FG&E's retail gas operations occurred in 1998. In 2001, FG&E's electric base rates were investigated by the MDTE, which resulted in an electric base rate decrease. A majority of the Company's electric and gas operating revenues are collected under various periodic rate adjustment mechanisms including fuel, purchased power, energy efficiency and restructuring-related cost recovery mechanisms. Industry restructuring will continue to change the methods of how certain costs are recovered through the Company's regulated rates and tariffs.

On the gas side, FG&E continues to provide a multi-year refund through its Cost of Gas Adjustment Clause in compliance with the MDTE's May 2001 Order finding that FG&E had over-collected fuel inventory finance charges. At December 31, 2002, the unamortized balance of this refund was $1.3 million. FG&E believes a refund is not justified or warranted and has appealed the MDTE's ruling to the Massachusetts Supreme Judicial Court (SJC). On a preliminary motion, a single justice of the SJC declined to stay the MDTE's Order based on a finding that refunds made by FG&E may be recouped if FG&E prevails on the merits of its claims. The review of the MDTE Order by the SJC is pending.

On October 25, 2002, as part of the electric restructuring settlement for Unitil's New Hampshire utility operations described above, the Company received approval from the NHPUC for an increase of approximately $2.0 million in annual distribution revenues for UES, effective December 1, 2002.

On December 2, 2002, the MDTE issued an Order resulting in distribution rate increases of $2.0 million for FG&E's electric operations and $3.0 million for FG&E's gas operations. Increases for rising gas costs were incorporated into the final gas rates. FG&E's new rates became effective on December 2, 2002.

On April 16, 2002, FG&E filed Performance Based Regulation (PBR) Plans with the MDTE for both electric and gas operations. PBR is a method of setting regulated distribution rates that provides incentives to control costs while maintaining a high level of service quality. Under PBR, a company's earnings are tied to performance targets, and penalties can be imposed for deterioration of service quality. FG&E's PBR Plans were filed in conjunction with FG&E's distribution rate filings, consistent with MDTE policy to implement PBR in the context of base rate cases. The MDTE did not initiate investigations of the filings. On January 6, 2003, the MDTE issued Orders closing the cases. Accordingly, FG&E's PBR plans have no scheduled date of implementation, and conventional cost-based regulation continues to apply.

In December 2002, FG&E and UES filed requests with their respective state regulatory commissions for approval of an accounting Order to mitigate certain accounting requirements related to pension plan assets, which have been triggered by the substantial decline in the capital markets. These requests were granted by the respective state regulatory commissions in December 2002. These approvals allow FG&E and UES to treat the additional minimum pension liability and Prepaid Pension Costs as Regulatory Assets under SFAS No. 71 and avoid the reduction in equity that would otherwise be required by SFAS No. 87. These regulatory Orders do not pre-approve the amount of pension expense to be recovered in future rates. Such recovery will be subject to review and approval in future rate proceedings. Based on these approvals, Unitil has included the amount of the additional minimum pension liabilities and Prepaid Pension Costs of $12.0 million in Regulatory Assets on its balance sheet.

Environmental Matters

The Company's past and present operations include activities that are subject to extensive federal and state environmental regulations.

Sawyer Passway MGP Site—The Company continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. FG&E proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection (DEP), which allows the Company to work towards temporary remediation of the site. Work performed in 2002 was associated with the five-year review of the Temporary Solution submittal (Class C Response Action Outcome) under the Massachusetts Contingency Plan that was filed for the site in 1997. Completion of this work has confirmed the Temporary Solution status of the site for an additional five years. A status of temporary closure requires FG&E to monitor the site until a feasible permanent remediation alternative can be developed and completed.

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

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

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

Due to the continuing deterioration of this former electric generating station and Rockware's continued lack of performance, FG&E, in concert with the DEP and the U.S. Environmental Protection Agency (EPA), conducted further testing and survey work during 2001 to ascertain the environmental status of the building. Those surveys revealed continued deterioration of the asbestos-containing insulation materials in the building.

By letter dated May 1, 2002, the EPA notified FG&E that it was a Potentially Responsible Party for planned remedial activities at the site and invited FG&E to perform or finance such activities. FG&E and the EPA have entered into an Agreement on Consent, whereby FG&E, without an admission of liability, will conduct environmental remedial action to abate and remove asbestos-containing and other hazardous materials. FG&E has awarded contracts for all aspects of the abatement work, which is presently ongoing. FG&E received significant coverage from its insurance carrier. The Company believes that these funds will be sufficient to complete this remediation and that resolution of this matter will not have a material adverse impact on the Company's financial position.

The Company has recorded the estimated cost of the remediation action in Current Liabilities and an offsetting asset reflecting insurance proceeds in Current Assets. At the balance sheet date, net of amounts expended in 2002, the remaining project cost was $3.7 million.

Report of Independent Certified Public Accountants

Grant Thornton

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, 2002 and 2001, 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, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unitil Corporation and subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Boston, Massachusetts
February 7, 2003

Report of Management

To the Shareholders of Unitil Corporation:

Management is responsible for the preparation and integrity of the Company's financial statements. The financial statements have been prepared in accordance with generally accepted accounting principles as applied to regulated public utilities, as appropriate, and necessarily include some amounts that are based on management's best estimates and judgment.

The Company maintains a system of internal accounting and administrative controls and an ongoing program of internal audits that management believes provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. The Company's financial statements have been audited by the independent public accounting firm, Grant Thornton, LLP, who also conducts a review of internal controls to the extent required by generally accepted auditing standards.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets with management, the internal auditor and Grant Thornton LLP to review planned audit scope and results and to discuss other matters affecting internal accounting controls and financial reporting. The independent accountants and internal auditor have direct access to the Audit Committee and periodically meet with its members without management representatives present.

Robert G. Schoenberger
Chairman of the Board of Directors
Chief Executive Officer

Mark H. Collin
Senior Vice President
Chief Financial Officer

Hampton, New Hampshire
February 7, 2003

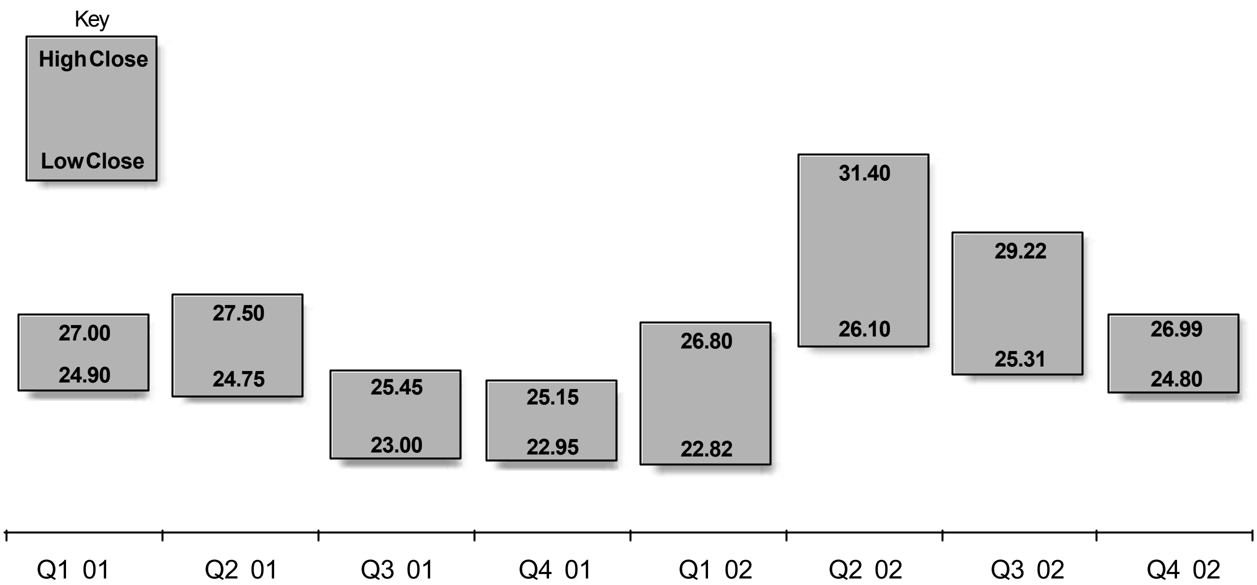
Selected Consolidated Financial Data

	2002	2001	2000
Consolidated Statements of Earnings (000's)			
Operating Income	**$ 13,248**	$ 14,394	$ 14,280
(Gain) Loss on Non-Utility Investments, Net of tax	**(82)**	2,400	—
Other Non-Operating Expense (Income)	**185**	170	244
Income Before Interest Expense and Extraordinary Item	**13,145**	11,824	14,036
Interest Expense, net	**7,057**	6,797	6,820
Income before Extraordinary Item	**6,088**	5,027	7,216
Extraordinary Item, net of tax	**—**	3,937	—
Net Income	**6,088**	1,090	7,216
Dividends on Preferred Stock	**253**	257	263
Earnings Applicable to Common Shareholders	**$ 5,835**	$ 833	$ 6,953
Balance Sheet Data (000's)			
Utility Plant (Original Cost)	**$ 271,179**	$ 255,498	$ 238,023
Total Assets	**$ 480,783**	$ 376,762	$ 382,967
Capitalization:			
Common Stock Equity	**$ 74,350**	$ 74,746	$ 79,935
Preferred Stock	**3,322**	3,609	3,690
Long-Term Debt	**104,226**	107,470	81,695
Total Capitalization	**$ 181,898**	$ 185,825	$ 165,320
Short-Term Debt	**$ 35,990**	$ 13,800	$ 32,500
Capital Structure Ratios (%):			
Common Stock Equity	**34%**	37%	40%
Preferred Stock	**2%**	2%	2%
Long-Term Debt	**48%**	54%	41%
Short-Term Debt	**16%**	7%	16%
Earnings Per-Share Data			
Basic Earnings per Average Share	**$ 1.23**	$ 0.18	$ 1.47
Diluted Earnings per Average Share	**$ 1.23**	$ 0.18	$ 1.47
Common Stock Data			
Shares of Common Stock (Year-End) (000's)	**4,744**	4,744	4,735
Shares of Common Stock (Average) (000's)	**4,744**	4,744	4,723
Dividends Paid per Share (Year-End)	**$ 1.38**	$ 1.38	$ 1.38
Book Value per Share (Year-End)	**$ 15.67**	$ 15.76	$ 16.88
Electric and Gas Statistics			
Electric Distribution Sales (000's of kWh)	**1,659,136**	1,596,390	1,587,536
Electric Customers (Year-End)	**96,985**	95,116	94,050
Gas Distribution Sales (000's of Therms)	**22,480**	23,067	23,992
Gas Customers (Year-End)	**14,911**	14,879	14,796

1999	1998	1997	1996	1995	1994	1993
$ 15,408	$ 15,306	$ 15,562	$ 14,273	$ 14,225	$ 13,754	$ 14,073
—	—	—	—	—	—	—
51	156	160	(627)	217	64	(50)
15,357	15,150	15,402	14,900	14,008	13,690	14,123
6,919	6,901	7,167	6,171	5,639	5,652	6,523
8,438	8,249	8,235	8,729	8,369	8,038	7,600
—	—	—	—	—	—	—
8,438	8,249	8,235	8,729	8,369	8,038	7,600
268	274	276	278	284	291	298
$ 8,170	$ 7,975	$ 7,959	$ 8,451	$ 8,085	$ 7,747	$ 7,302
$ 219,838	$ 209,462	$ 219,475	$ 207,545	$ 190,177	$ 178,777	$ 171,540
$ 363,527	$ 376,835	$ 238,531	$ 232,108	$ 211,702	$ 204,521	$ 201,509
$ 78,675	$ 75,351	$ 71,644	$ 67,974	$ 63,895	$ 59,997	$ 56,234
3,757	3,843	3,891	3,891	3,999	4,094	4,198
86,157	75,222	68,366	62,211	63,505	65,580	57,378
$ 168,589	$ 154,416	$ 143,901	$ 134,076	$ 131,399	$ 129,671	$ 117,810
$ 10,500	$ 20,000	$ 18,000	$ 21,400	$ 2,700	—	$ 8,400
44%	43%	44%	44%	48%	46%	45%
2%	2%	2%	3%	3%	3%	3%
48%	43%	42%	40%	47%	51%	45%
6%	11%	11%	14%	2%	0%	7%
$ 1.74	$ 1.77	$ 1.80	$ 1.94	$ 1.88	$ 1.83	$ 1.75
$ 1.74	$ 1.72	$ 1.76	$ 1.89	$ 1.85	$ 1.80	$ 1.72
4,712	4,575	4,464	4,384	4,330	4,268	4,205
4,682	4,506	4,413	4,354	4,299	4,234	4,181
$ 1.38	$ 1.36	$ 1.34	$ 1.32	$ 1.28	$ 1.24	$ 1.15
$ 16.70	$ 16.47	$ 16.05	$ 15.50	$ 14.76	$ 14.06	$ 13.37
1,608,824	1,540,968	1,491,103	1,532,015	1,401,292	1,358,165	1,303,326
92,505	91,729	90,776	89,149	88,316	86,782	85,383
22,136	22,027	23,716	24,508	22,303	23,057	22,763
14,928	14,915	14,943	14,848	14,846	15,012	15,340

Selected Consolidated Financial Data

Price Range of Common Stock



Note: • The Common Stock of the Company is traded on the American Stock Exchange (Symbol: UTL).
• Number of Common Shareholders of Record at December 31, 2002 — 1,932.

Quarterly Financial Data

(Unaudited; 000's except per share data)

Quarterly earnings per share may not agree with the annual amounts due to rounding. Basic and Diluted Earnings per Share are the same for the periods presented.

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
Total Operating Revenues	**$ 44,289**	$ 64,490	**$ 45,517**	$45,619	**$ 48,007**	$ 49,484	**$ 50,573**	$47,429
Operating Income	**3,685**	3,731	**3,162**	3,216	**3,310**	3,319	**3,091**	4,128
Investment Write-down, net	**—**	—	**—**	—	**—**	—	**—**	(2,400)
Extraordinary Item, net	**—**	—	**—**	—	**—**	**(3,937)**	**—**	—
Net Income (Loss) Applicable to Common	**1,695**	1,939	**1,290**	1,388	**1,378**	**(2,583)**	**1,472**	89
Earnings per Share:								
Before Extraordinary Item	**0.36**	0.41	**0.27**	0.29	**0.29**	0.28	**0.31**	0.03
After Extraordinary Item	**0.36**	0.41	**0.27**	0.29	**0.29**	(0.55)	**0.31**	0.03
Dividends Paid per Common Share	**$ 0.345**	$ 0.345	**$ 0.345**	$ 0.345	**$ 0.345**	$ 0.345	**$ 0.345**	$ 0.345

Shareholder Information

Annual Meeting

The Annual Meeting of Shareholders is scheduled to be held at the office of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Thursday, April 17, 2003, at 10:30 a.m.

10-K

The Company's annual report for 2002 on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge upon written request to:

Mark H. Collin, Senior Vice President, Chief Financial Officer and Treasurer, Unitil Corporation, 6 Liberty Lane West, Hampton, New Hampshire 03842-1720.

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 investment in the Company automatically each quarter by reinvesting their dividends 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 EquiServe at:

EquiServe
P.O. Box 43010
Providence, RI 02940-3010

Telephone: 800/736-3001 (outside Massachusetts)
781/575-3100 (within Massachusetts)
Internet: www.equiserve.com

Investor Information

The Company's Transfer Agent, EquiServe, 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 EquiServe at:

EquiServe
P.O. Box 43010
Providence, RI 02940-3010

Telephone: 800/736-3001 (outside Massachusetts)
781/575-3100 (within Massachusetts)
Internet: www.equiserve.com

You may also contact the Investor Relations Representative at the Company.
Telephone: 800/999-6501.

On the Internet, Unitil's home page address is:
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 EquiServe at:

EquiServe
P.O. Box 43010
Providence, RI 02940-3010

Telephone: 800/736-3001 (outside Massachusetts)
781/575-3100 (within Massachusetts)
Internet: www.equiserve.com

Directors & Officers

Directors

David P. Brownell, Age 59 C 2001*
Mr. Brownell, a graduate of Clarkson University, is a retired Senior Vice President of Tyco International, Ltd., in Portsmouth, NH. Mr. Brownell started his career with General Electric Co., and over the years has been active in many business and community organizations, including the United Way and Junior Achievement. He currently serves on the Board of the Business and Industry Association of New Hampshire and the University of New Hampshire Foundation.

Michael J. Dalton, Age 62 1984*
A graduate in engineering from the University of New Hampshire, Mr. Dalton has 39 years' experience in the electric utility industry and has served as Unitil's President and Chief Operating Officer since 1984. Mr. Dalton has been active in many civic and business organizations in his career. He is past Chairman of the University of New Hampshire's Presidents Council and a recipient of the UNH Alumni Association Meritorious Service Award.

Albert H. Elfner, III, Age 58 E^ 1999*
Mr. Elfner is a Chartered Financial Analyst and the retired Chairman and Chief Executive Officer of Evergreen Investment Management Company in Boston, Massachusetts. A graduate of Middlebury College and the Advanced Management Program of the Harvard Business School, Mr. Elfner received an Honorary Doctor of Business Sciences Degree from Merrimack College in 1999. He worked for Keystone Custodian Funds for 27 years and is presently a Director of National Grange Mutual Insurance Co. and Optimum Q Funds.

Key to Committees:
E Member of the Executive Committee
A Member of the Audit Committee
C Member of the Compensation Committee
^ Denotes Committee Chair
* Year first elected to the Unitil Board

Ross B. George, Age 70 A^ 1999*
Mr. George is Chairman of the Board of Five G Management L.L.C. of Austin, Texas, and Director, former Chairman and former President and Chief Executive Officer of Simonds Industries in Fitchburg, Massachusetts. He earned degrees in Industrial Engineering from Texas A&M (B.S.) and Southern Methodist University (M.S.), and received Outstanding Alumni Awards from Texas A&M and the Dwight Look College of Engineering. Mr. George's career included service with Texas Instruments, Johnson and Johnson, Booz, Allen and Hamilton and Wallace Murray Corporation.

Edward F. Godfrey, Age 53 A 2002*
Mr. Godfrey is retired Executive Vice President and Chief Operating Officer of Keystone Investments, Incorporated, a mutual fund company in Boston. Mr. Godfrey held a variety of senior positions with Keystone in his 15 years with the company, after serving in executive positions with The Equitable Life Mortgage and Realty Investors. A graduate of Southampton College of Long Island University, Mr. Godfrey is Chairman of Friends of Copley Place and a Director of Parent's and Children's Services.

Michael B. Green, Age 53 C 2001*
Mr. Green is President and Chief Executive Officer of Capital Region Health Care, which operates a variety of health delivery businesses in central New Hampshire, including two acute care hospitals. A graduate of Dartmouth College (B.A.) and the Sloan School of Management at M.I.T. (M.S), Mr. Green is a member of the Adjunct Faculty at Dartmouth Medical School, and has held a variety of senior management positions in the health care industry. He currently Chairs the Foundation for Healthy Communities and is a Director of Concord 20/20 and the Merrimack County Savings Bank.

Continued on next page.

Directors

Eben S. Moulton, Age 56 C^ E 2000*

Mr. Moulton earned degrees from Colorado College (B.A.), Columbia University (M.B.A.) and Vanderbilt University (Ph.D.) and currently serves as Managing Partner with Seacoast Capital, a private equity investment company with offices in Boston and San Francisco. Mr. Moulton is a Trustee of Colorado College and currently serves on several corporate Boards where his assignments include service on Executive, Investment, Compensation and Audit Committees.

M. Brian O'Shaughnessy, Age 60 E 1998*

Mr. O'Shaughnessy is Chairman, Chief Executive Officer and President of Revere Copper Products, Inc., of Rome, New York, and a leading advocate for the copper industry. A graduate in Industrial Management from the University of Nevada, Mr. O'Shaughnessy has held positions in operations, marketing and corporate administration within the industry, and has served as Chairman of various industry associations including the Environmental Program of the International Copper Association, the Industrial Energy Consumers Coalition and the Copper and Brass Fabricators Council.

Robert G. Schoenberger, Age 52 E 1997*

Prior to serving as Chairman and Chief Executive Officer of Unitil, Mr. Schoenberger was President and Chief Operating Officer of the New York Power Authority. He graduated from LaSalle University (B.A.), the University of Delaware (M.A.) and the Advanced Management Program of the Harvard Business School. Mr. Schoenberger currently serves as Chairman of the Greater Seacoast United Way and is Director and Vice Chairman of Exeter Health Resources.

Key to Committees:

E Member of the Executive Committee
A Member of the Audit Committee
C Member of the Compensation Committee
^ Denotes Committee Chair
* Year first elected to the Unitil Board

Charles H. Tenney, III, Age 55 E 1992*

A graduate of Ripon College (B.A.), Mr. Tenney is currently a member of the Management Team with Brainshift.com, a learning technology development company in Winchester, Massachusetts. Mr. Tenney has previously served in management positions with Bay State Gas Company and Log On America.

Sarah P. Voll, Age 60 A 2003*

Dr. Voll is an economist and Vice President with National Economic Research Associates in Washington, D.C., with 22 years of experience in utility regulation. A graduate of Goucher College (B.A.), Harvard University (M.A.) and the Whittemore School at the University of New Hampshire (Ph.D), she previously served as Executive Director and Chief Economist with the New Hampshire Public Utilities Commission. Dr. Voll is well-published and has consulted with utility and regulatory organizations worldwide.

Officers

Robert G. Schoenberger
Chairman of the Board of Directors
and Chief Executive Officer

Michael J. Dalton
President and Chief Operating Officer

Mark H. Collin
Senior Vice President,
Chief Financial Officer & Treasurer

Sandra L. Whitney
Secretary

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