



Unitil

Annual Report 2001





"grass roots"

We have the talent, the will, and the drive to implement our plan on your behalf. We take seriously our number one job of maximizing the return on your investment.

Robert Schoenberg

*Chairman of the Board of Directors
& Chief Executive Officer*

contents

page 3

page 4

page 8

page 15

page 59

page 60

financial highlights

**letter to
shareholders**

“grass roots”

financial information

directors & officers

**shareholder
information**

company description

Unitil 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 Concord Electric Company, Exeter & Hampton Electric Company, Fitchburg Gas and Electric Light Company, 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. The Usource product line is available at www.usourceonline.com.

financial highlights

financial data (000's)

	2001	2000	1999
Electric Operating Revenues	\$ 183,780	\$ 160,023	\$ 154,077
Gas Operating Revenues	\$ 22,828	\$ 22,756	\$ 18,116
Other Operating Revenues	\$ 414	\$ 162	\$ 180
Total Operating Revenues	\$ 207,022	\$ 182,941	\$ 172,373
Total Operating Income	\$ 14,394	\$ 14,280	\$ 15,408
Net Income after Extraordinary Item	\$ 1,090	\$ 7,216	\$ 8,438
Total Assets	\$ 376,762	\$ 382,967	\$ 363,527
Construction Capital Expenditures	\$ 19,890	\$ 21,092	\$ 15,411

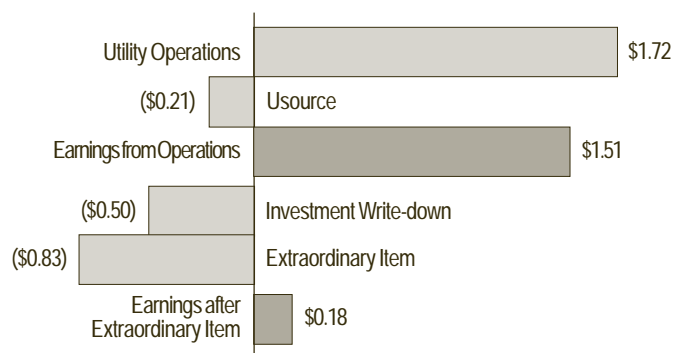
common share data

Earnings per Share by Component:			
Utility Operations	\$ 1.72	\$ 1.82	\$ 1.84
Usource	(0.21)	(0.35)	(0.10)
Earnings from Operations	1.51	1.47	1.74
Investment Write-down, net of tax	(0.50)	—	—
Extraordinary Item, net of tax	(0.83)	—	—
Earnings after Extraordinary Item	\$ 0.18	\$ 1.47	\$ 1.74
Dividends Paid Per Common Share	\$ 1.38	\$ 1.38	\$ 1.38
Book Value Per Share (Year-End)	\$ 15.76	\$ 16.88	\$ 16.70
Market Price (Year-End)	\$ 23.40	\$ 26.50	\$ 35.75
Common Shares Outstanding (Year-End)	4,743,696	4,734,917	4,712,001
Number of Common Shareholders of Record (Year-End)	2,062	2,131	2,262

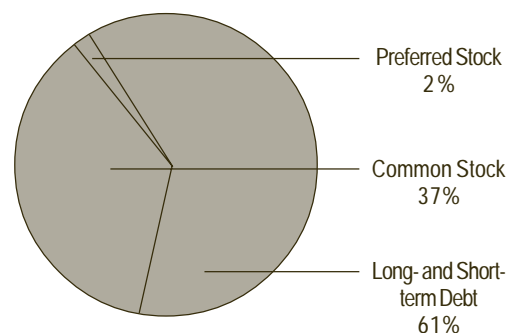
operating data

Electric Distribution Sales (Megawatt-hours)	1,596,390	1,587,536	1,608,824
Electric Customers (Year-End)	95,116	94,050	92,505
Firm Gas Distribution Sales (000's of Therms)	23,067	23,992	22,136
Gas Customers (Year-End)	14,879	14,796	14,928
Number of Employees (Year-End)	333	339	328

2001 earnings per share by component



2001 capital structure



letter to shareholders

focus on the fundamentals

The real world returned in 2001 — with a vengeance. Last year at this time I talked to you about turbulence and turmoil in the industry and about our commitment to providing a safe harbor for your investment. Those comments, it seems, were prescient. In 2001 and early 2002, many companies learned the hard way that the business cycle cannot be repealed. All investors learned that investments go up AND down in value, and something that seems too good to be true usually is. And all of us learned the very difficult lessons that Americans live in a dangerous world and that our freedom comes at a price.

Reality can hit with harsh and tragic consequences. Our country's economy is in recession, struggling with cyclical issues, an erosion of investor confidence, and the shock of September 11th, and significant participants in our industry have crumbled. Tragically though the



experiences may be, they remind us that a successful business needs to have real products and real earnings. The current environment is a strong reminder that stable dividends and dependable growth, the hallmarks of utility equity investments, are valued attributes.

The lessons of 2001 have not all been negative. In the past six months we have seen Americans respond as never before. The United States has refocused — strong, resolute, and incredibly resourceful. We are united, and committed to maintaining a free, safe, and democratic society and to the continued success of a free market economy. We have

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

gone back to the basics of freedom and family.

The investment climate has returned to some very basic principles as well. Sound investing requires a long-term view, one that balances growth and stability, risk and reward. Dividends are once again recognized as a consistent component of value. Stable, asset-based investments can serve as a safe haven in troubled markets.

In the business environment, some lessons are still taking shape, but we believe one key finding gleaned from the turmoil of 2001 is that it is essential to build and maintain a strong business foundation. It requires patience and prudent risk-taking. It requires tenacity and strength of purpose. It requires a commitment to the development of a firm root structure and to the careful nurturing of the factors that support and sustain growth and profitability.

Unitil is such an investment,

and we are committed to our business at the very grassroots level. The theme of our Annual Report this year focuses on the things we are doing at the grassroots level to support and sustain this Company and to increase the value of your investment.

progress

At last year's annual meeting of shareholders, I outlined three specific goals for Unitil over the next several years:

- Completing the regulatory restructuring process in Massachusetts and New Hampshire.
- Generating earnings per share that reflect a more normal utility earnings expectation.
- Making Usource a profitable venture.

I am glad to report we are making good progress on these goals. The efforts we have undertaken in this regard are strengthening our grass roots and positioning the Company for stable and sustainable growth.

utility restructuring

In 1996 and 1997, respectively, New Hampshire and Massachusetts passed legislation requiring utilities to submit plans to revise their business structure and operations. The legislation called on utilities to divest themselves of their generation supplies, focus on providing distribution services, adjust their rates (in Massachusetts by a

mandated reduction of 15%), and open their territories to competitive energy suppliers and marketers. This was a seminal event for the industry and your Company.

Electric restructuring has been a significant undertaking. In Massachusetts, our restructuring plan was filed in January 1998 — only six weeks after the legislation was finalized — and customer choice was introduced

In New Hampshire, we proposed our initial restructuring plan in October 1996, along with the other four New Hampshire electric utilities. The New Hampshire state regulators issued an order in February 1997 which ruled that Unitil was entitled to full recovery of power contract cost obligations.

However, the order also challenged long-standing legal precedents. At the request of one

"The fundamental qualities for good execution of a plan are first, intelligence; then discernment and judgment, which enable one to recognize the best method to attain it; then singleness of purpose; and, lastly, what is most essential of all, will — stubborn will."

— Ferdinand Foch, Military Strategist

in March 1998. Divestiture was completed in 1999.

However, the initial review of the recovery of costs relating to the restructuring process was not completed until October 2001. At that time, almost four years after our original filing, Massachusetts state regulators disallowed recovery of some of our restructuring costs, precipitating the \$3.9 million Extraordinary Item we recorded in the third quarter.

With this ruling, however, the financial uncertainties related to electric restructuring in Massachusetts have been largely resolved, and we now have rate mechanisms in place to recover restructuring-related regulatory assets of approximately \$150 million.

utility, the Federal District Court issued a temporary restraining order, which is still in effect today relative to Unitil.

In the fall of 1998, we attempted to resolve the electric restructuring issues in New Hampshire by reaching a settlement agreement with interested parties. New Hampshire state regulators imposed conditions on their approval of the settlement agreement that were unacceptable to the Company, and the proposal was withdrawn.

With the conclusion of restructuring proceedings for the largest utility in the state in early 2001, and the decrease in wholesale electric market volatility through 2001, we determined that the time was right to complete electric restructuring in

New Hampshire. During 2001 we developed a plan, discussed the elements with key stakeholders, and on January 25, 2002, completed the filing of a comprehensive restructuring proposal.

This proposal is designed to restructure Company operations at wholesale and at retail, provide for the recovery of 100% of our restructuring costs, consolidate our New Hampshire operations into a single distribution company — Unitil Energy Systems, Inc. — resolve the pending federal court case, and introduce choice to our customers. We are hopeful this proposal will be approved and implemented this year.

With restructuring behind us, management can focus all of its efforts on growing your Company and on continuing to improve our operational and financial results.

return to utility earnings

Our earnings from the operations of our utility and Usource business units have shown modest growth — from \$1.47 per share in 2000, to \$1.51 per share in 2001. These earnings from operations exclude the impact of the Extraordinary Item associated with regulatory restructuring and the Investment Write-down associated with our Enermetrix investment.

The increase in earnings from operations in 2001 is largely attributable to an improvement in operating results for Usource, our unregulated energy brokerage business. Usource incurred a loss of \$0.21 in 2001, compared to a

loss of \$0.35 in 2000. Significantly, the fourth quarter 2001 loss for Usource was only \$0.03 per share, an improvement of \$0.07 per share compared to the fourth quarter of 2000.

The improved results for Usource were the result of a reorganization of the Usource operations in response to market forces, as well as the expansion of sales in new and existing markets, principally in Massachusetts and Maine.

At the same time, earnings from our regulated utility business segment were \$1.72 per share in 2001, down \$0.10 from 2000. This decline reflects principally the impacts of a slowing economy and higher costs in our utility operations, as well as the implementation in October 2001 of a regulatory order that reduced our electric revenues in Massachusetts by \$1.2 million annually.

The improved financial results for Usource have moved

us considerably closer to more normal utility earnings, and we are cautiously optimistic about the future for Usource.

We believe that additional work is needed to achieve an appropriate level of earnings from our utility operations.

This year we will file base rate cases for all of our electric and gas distribution operations in Massachusetts and New Hampshire, seeking to recover increased costs of operating our distribution businesses and to achieve an appropriate return on invested capital.

Unitil has not had an electric base rate increase in Massachusetts since 1984 or in New Hampshire since 1985. We have accomplished this enviable record as a result of growth in our operating areas and increasing operating efficiencies. Unitil is now, and will continue to be, one of the lowest-cost utilities in New England.

In New Hampshire, our electric base rate case has already been filed in conjunction with our restructuring proposal. In Massachusetts, we are scheduled to file electric and gas rate cases in April in conjunction with required filings to implement a statewide Performance Based Ratemaking program.

If these base rate cases are successful, we expect them to result in increased cash flows, and improved bottom-line results.



Usource

Usource is a wholly-owned subsidiary of your Company, providing energy brokerage and other services to large commercial and industrial customers. As a start-up business, Usource has had a significant impact on earnings over the last few years, as we invested for the future.

We restructured Usource last year to reflect market realities. While competitive energy markets have developed more slowly than anticipated, we have been successful in expanding our customer base and the geographic areas in which we operate. We recently acquired additional brokerage customers in Pennsylvania and Ohio through an agreement with DQE Enterprises. We continue to add new customers in Maine and Massachusetts, and we are looking at new markets such as Texas. Usource has over 500 customers in eight states.

We expect continued improvement in the financial impact of Usource on operating income this year, and we expect Usource to be profitable in 2003. While others have exited the market, we believe strongly in competitive energy markets, and have established Usource as a credible player in this new industry. We expect those companies that have the patience and smarts to pursue this opportunity to be rewarded in the years ahead.

Your Company also invested, in 1999 and 2000, in Enermetrix, Inc., the private energy technology start-up enterprise that created the country's first retail energy exchange. Given the significant

drop in private equity valuation criteria over the last year, accounting rules require us to reduce the carrying value of our investment. We took a write-down of over two thirds of this investment, resulting in a non-cash charge to earnings of \$2.4 million, or \$0.50 per share, net of tax. We continue to investigate options to maximize the value of this investment.

the bottom line

With several key uncertainties behind us, Unitil's future results will be more reflective of its fundamentals as a financially sound distribution utility. We will strive to improve our earnings by continuing to enhance operations and by updating our distribution charges through the regulatory rate-setting process. We have well-positioned distribution businesses which we intend to grow.

Furthermore, the Usource business continues to expand, and I believe it offers the poten-

tial for a growth "kicker" in the years ahead.

In addition to the bottom-line results, the health of a company has to be based on the strength of its relationships with its customers and with the communities in which it seeks to grow. I am pleased to report that your Company continues to receive high marks for the reliability of its distribution systems, for its customer service, and for being a good corporate citizen. Customer feedback, in the form of both survey data and direct commendations, highlights the performance of our frontline, grassroots employees and their commitment to "go the extra mile for our customers." Our new tagline captures that spirit: "We deliver. It's that simple."

In the following pages, you will read the stories of a few of our employees who represent the real grassroots efforts of the Company in achieving its excellent and improving record of performance.



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

February 22, 2002

“Sometimes when I consider what tremendous consequences come from little things, I am tempted to think there are no little things.”

— Bruce Barton,
Advertising Executive

What does "grass roots" say to you? To us it says focussing on the basics, the core principles, the fundamentals, the essential activities that are critical to our success. It says meeting customer needs and satisfying investor expectations.

In the short-term, the ups and downs of the energy markets, the rise and fall of the stock market, the ebb and flow of the national economy can all have an impact on business performance. But the fundamentals that make a business a

sound investment are the grass roots — the detailed execution of proven business practices that support the Company's mission and meet our customers' needs.

Unitil's fundamentals are sound, because we pay close attention — as we always have — to the basics: things like reliable power supply, cost control, accurate billing, and customer service. It's the way we do business. It's part of our culture. It's what we have to do every day to continue to be successful.

In the following pages, we will introduce you to Rob Furino, a senior energy trader at Unitil. He buys electricity and natural gas supplies in the wholesale markets, to meet the needs of our distribution customers. He'll talk about what's fundamental to his job.

You'll also meet Skip Zogo-

polous, a 30-year veteran of Unitil, and part of the team responsible for designing and building the distribution systems that deliver power to our customers.

Men and women in our distribution operations have significant responsibility for making sure that the energy gets to homes and businesses and that the meters get read accurately. Gregg Plumer is one of those people who understand what it means to take care of the basics.

Credit representatives like Sue Corson know the importance of the timely collection of revenues billed. And Kathleen Morse in Customer Service shows us why, when customers require personal, face-to-face attention, they know they can get it from her. It's basic.

In one way or another, all of these people are on the front line. The work they do has a direct impact on customers. And whatever impacts a customer ultimately reaches the Company's bottom line.

grass

**energy
contracts**



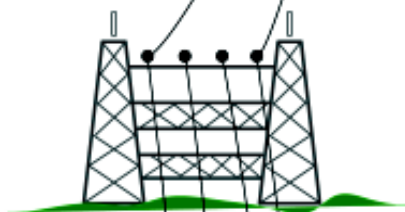
*Rob Furino,
Senior Energy Trader*

engineering



*Skip Zogopoulos,
Design & Standards
Specialist*

distribution



*Gregg Plumer,
Meter Reader 1st Class*

credit



*Sue Corson,
Team Leader, Credit*

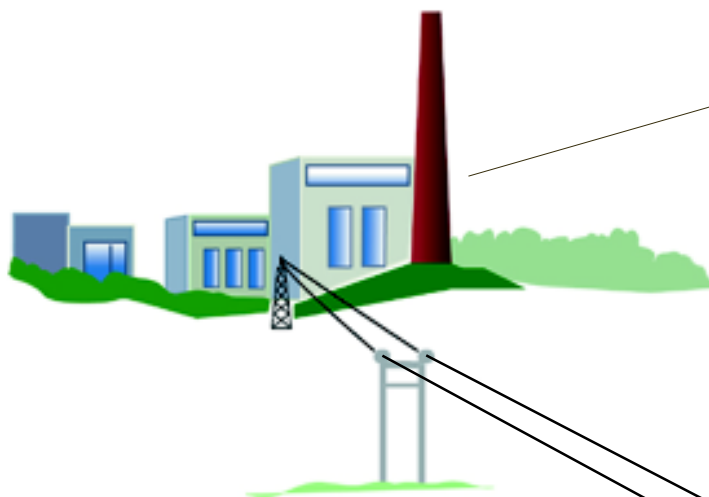
**customer
service**



*Kathleen Morse,
Customer Service Rep.*

roots

grass roots



Rob Furino
Senior Energy Trader

energy contracts

"...I have witnessed a whole succession of technological revolutions. But none of them has done away with the need for character in the individual or the ability to think."

— Bernard M. Baruch, Statesman

How do I spend my time? My fundamental job is making sure our customers have adequate supplies of power — reliable and at least cost. If that isn't taken care of, we don't go anywhere. We don't operate any power plants, so we have to buy all our energy. Hence the term "Energy Contracts."

Step 1 is assessing our load requirements. How much power is our system going to draw? To answer that question I analyze our loads in the same period a year ago, a week ago, yesterday, and compare weather forecasts with historical conditions.

Next, I look at our resources — existing contracts

with generation units. I adjust for generator outages, then compare with expected loads to determine how much power we need to buy. Shortfalls have to be filled in the spot market, so I continuously track market prices. That helps us decide at what price and at what volume the purchase of additional supplies will minimize costs and risk to Unitil and our customers.

We are prudent buyers. When we believe the markets are at the optimum position to meet our requirements, then it's a matter of negotiation and timing to get the transactions we need at the lowest price. Power markets are as much financial as they are physical.

The whole process is data intensive. There are literally hundreds of electronic reports every hour for each of the contracts we manage. Once we make a transaction, we need all those data to document the

transaction in legally binding terms. I use a series of models, statistics, spreadsheets, and rules of thumb my co-workers and I have developed over the years.

Unitil is small compared to power companies in general, so we have to wear several hats: working on budgets or regulatory filings, projecting loads and tracking energy markets, negotiating contracts, establishing credit, processing billings, or researching the impact of changes in market rules. I like this diversity and I like my job. Unitil is a great place to work.

As a business partner for our suppliers, we're a very good credit risk. Why? Because we have solid guarantees of cost recovery and because we don't speculate in the markets.

engineering

"Ability is what you're capable of doing. Motivation determines what you do. Attitude determines how well you do it."

— Lou Holtz, Football Coach

My team is responsible for design of our 34.5 kV subtransmission system and distribution substations. In a general sense, our job is to keep the lights on, and do it economically. To do that, we evaluate just about everything. Every project has alternatives. We determine which ones are best in the long term. We concentrate on safety, reliability, economy, and efficiency of design.

In all of this, we try to apply good engineering judgment. For example, it makes good sense to

design major system improvements with the future in mind — meeting today's needs, but putting into place the solutions to support future development. We are constantly estimating future needs, because the distribution system is constantly evolving.

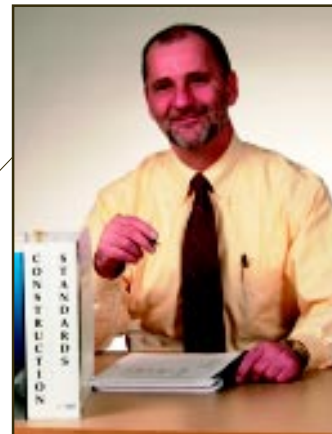
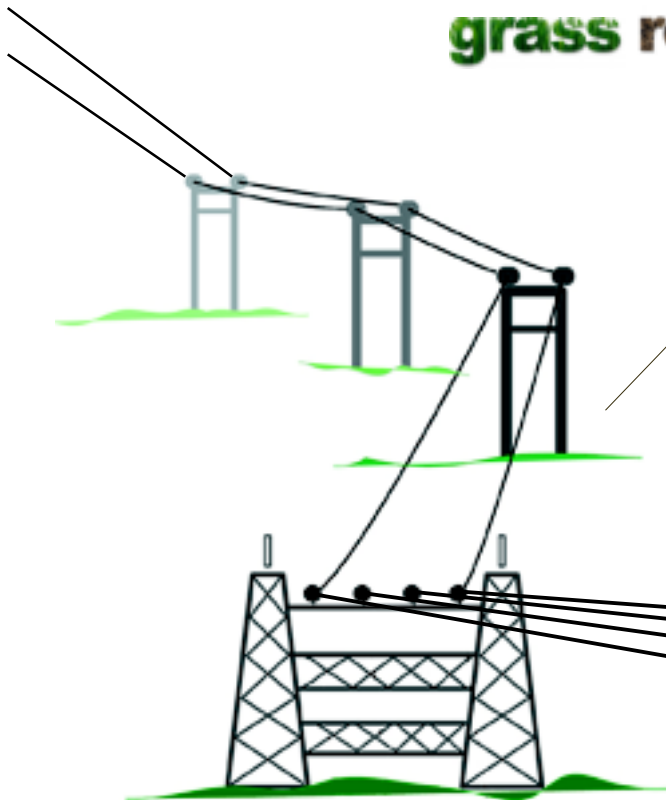
Part of my job is mentoring other members of the Engineering Department, to help establish well-rounded engineers. I've been with Unitil nearly 30 years. I have a lot of experience, and that's what I'm sharing. I started at this Company as a lineman, making \$4.52 an hour. I've done my time planting poles, climbing poles, jockeying bucket trucks, working on substations, working on meters. Unitil gave me that experience, and Unitil recognizes my experience as the foundation of my skills. It's fundamental to

our future success that I pass along what I have learned to the newer members of our team.

Once we develop an approved engineering plan and budget, the Company says, "Go do it." That's empowerment. To me, it's what we mean when we say, "We deliver. It's that simple." You never know what obstacles you are going to encounter, but part of empowerment is taking on the problems. That fundamentally includes being responsible and accountable, but it also means being innovative and creative.

My job is to anticipate design problems, find economical engineering solutions, and put them in place...to build the right thing, according to accepted construction standards, and have it in place when it is needed.

grass roots



Skip Zogopoulos
Design & Standards
Specialist

distribution

"I try to do the right thing at the right time. They may just be little things, but usually they make the difference between winning and losing."

— Kareem Abdul-Jabar,
Basketball Player

What's fundamental to my job? Finish my route, read every meter, don't miss any.

We read meters every month so we can send out accurate bills that reflect actual usage. Unless we are sick or on vacation, we are in the community reading meters every day.

While we're out there, we watch for problems – a meter box "hanging" that may need to be reattached, a rusted meter

box (there's salt air along the seacoast), tree limbs on a service wire; tampering with the meter (I call it stealing). We also keep our eyes open for people who need assistance – a jump start, directions. It's part of being a good neighbor in our community.

People sometimes have complaints or questions, and I try to answer them as responsibly as I can. One of the most common questions when a customer's bill increases is, "Is my meter bad?" There are a lot of reasons why consumption may increase from one month to the next, but a bad meter is almost never the answer. It's more likely you'll win the Mega-Bucks.

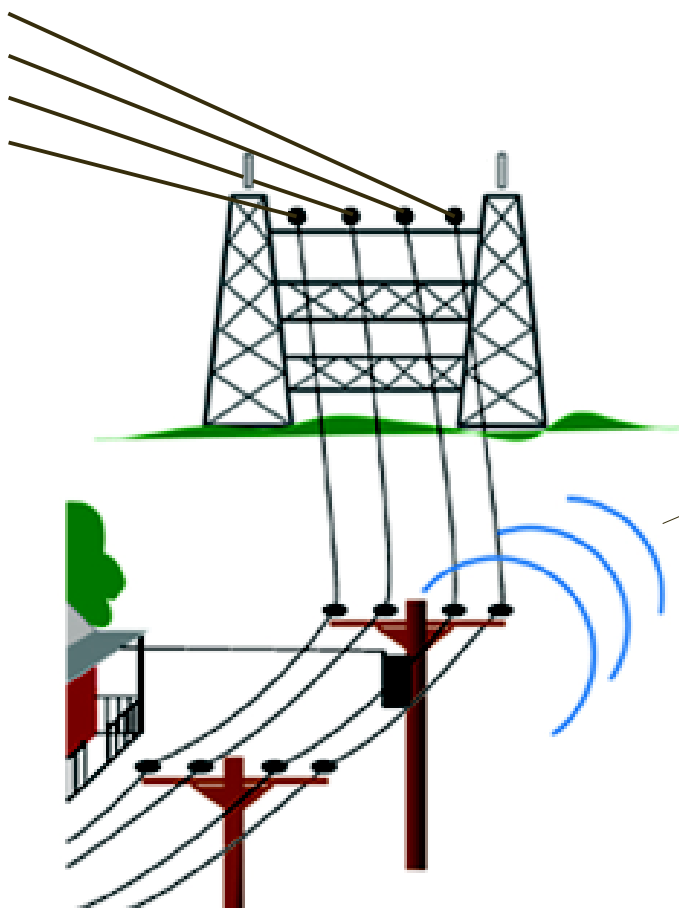
The fundamental thing is getting that meter read. With accurate readings, no one

underpays, no one overpays. Accurate readings mean accurate bills. Customers want to pay what they owe, not more, not less.

What's a meter reader's biggest problem? Dogs. I used to carry mace. Now I carry biscuits. Customers get a big kick out of that. I treat other people's dogs like I treat my own.

The other thing is blocked access to meters: Things get piled in front, and we can't get to them. Most customers are pretty helpful about that.

Since September 11th, customers have been more concerned about seeing us near their homes. We do what we can to put them at ease, and that includes wearing uniforms and carrying photo ID. Most people never even see us; we're on their property only a few seconds once a month.



grass roots



Gregg Plumer
Meter Reader 1st Class



grass roots



Sue Corson
Team Leader, Credit

credit

"Winning is not a sometime thing; it's an all the time thing. You don't win once in a while; you don't do things right once in a while; you do them right all the time. Winning is a habit."

— Vince Lombardi, Football Coach

The #1 job of everyone in Credit is to reduce delinquent accounts through effective customer relations — and to do it with the least expense. We do that by paying attention to the daily, weekly, and monthly functions of our department. A big part of that is getting reminders out the door, and helping customers resolve credit issues.

We have excellent systems in place for handling these critical functions. The people who worked here before us did a great job setting up the technologies. We are concentrating on fine-tuning their already good

efforts. First and foremost it's important to get accurate bills into customers' hands, and that task is well under control. The current team is designing and tailoring the follow-up programs.

We have four programs. The first is a reminder letter to customers who miss a payment due date. It's nonthreatening, and customers have told us they appreciate that.

We also have a system for telephone follow-up. It's personal and friendly, and it is effective as a collection tool, because our Credit team is courteous, high-energy, and outgoing. Customers respond to that, and generally think very highly of Unitil. Customer loyalty is one of our key corporate goals.

Our other new follow-up programs are bill messages that promote credit options, and outreach seminars. The seminars are particularly exciting. We have partnered with community assistance programs to offer a series of information seminars for elderly and low-income custom-

ers in the local communities. It's a small cost to us, but it's getting good results among customers and in the collection of revenues. Bills are getting paid.

We also act as budget counselors, making suggestions we believe will help customers pay their utility bills. It may mean we help them set up a payment plan, or we may refer them to an outside agency for assistance. In either case, we try to help. We know that doing our job successfully helps develop loyal customers. It also improves the bottom line, and that links us directly to shareholders.

By the time an account reaches the "credit problem" stage, customers are often panicked. The issue is always nonpayment of a bill, but the solutions we provide are many and varied and are always customized to the individual.

grass roots



customer service

"You can make more friends in two months by becoming interested in other people than you can in two years by trying to get other people interested in you."

— Dale Carnegie,
Motivational Author

It's always busy at our walk-in customer service centers. My main job here is to talk to customers. It's different from day to day, but it's always dealing with people, and always helping them with their needs.

Customers with problems aren't always disagreeable; they just want an explanation. That's reasonable. We have really good people at the Customer Call Center, but not every customer is comfortable dealing with issues over the phone or on-line. They like talking face-to-face, so they come see us.

One of my duties is helping

customers set up payment plans. Here's a rule of thumb I use: We're going to see less than 10% of our customer population. Of those, 90% want to pay their bill, but can't because of current circumstances; 5% don't want to pay their bill, but eventually will; 5% don't want to pay their bill, and never will. In other words, we resolve most situations. If they're in here making the effort to pay their bills, that means they aren't as likely to show up on the books as a write-off.

People may be aggressive on the phone, but they tend to be more courteous face-to-face. I don't take it personally in either event.

A lot of the customers we see are elderly; I like them; they think I'm young! They don't always have problems; they just like to pay their bills in person. It's



Kathleen Morse
Customer Service

a social thing, and I think it's charming.

I've been with this Company more than 18 years. I like my job and I like people. Our customers come in expecting help. They have to pay their bills, but it's important for them to know we've tried to help them. That's exactly why I do it, and it makes me happy, because I feel like I'm doing something worthwhile.

I'm the front line. Customers perceive me as what the Company is like. Knowing that, we want to give good customer service, and we truly do.

financial information

	management's discussion & analysis
page 16	
	financial statements
page 29	
	notes to consolidated financial statements
page 35	
	report of independent certified public accountants
page 54	
page 55	
page 56	report of management
	selected consolidated financial data

management's discussion and analysis of financial condition and results of operations

operating earnings & dividends

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

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

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

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

The graph on the next page shows Quarterly Earnings per Share from Operations for 2000 and 2001.

the year in review

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

Utility Operations — Despite a slowing economy in 2001, our electric energy sales to residential and commercial customers were up in all three of Unitil's distribution utility service areas, compared to the prior year. Our New Hampshire distribution operating companies experienced record-high system peak electric loads during a sustained summer heat wave. However, the national economic slowdown has directly impacted our industrial sales, as manufacturing utilization and output have been curtailed. For 2001, total electric kWh sales increased slightly by 0.6% compared to 2000. Residential

electric sales increased 3.4%, while commercial electric sales increased 3.1%. Electric sales to industrial customers decreased 3.7% in 2001 compared to 2000. Gas sales were up 4.3% through the first three quarters of the year, then dipped below prior year levels due to unseasonably mild temperatures in the fourth quarter of 2001. On a full-year basis, gas sales were down 3.9% compared to prior year.

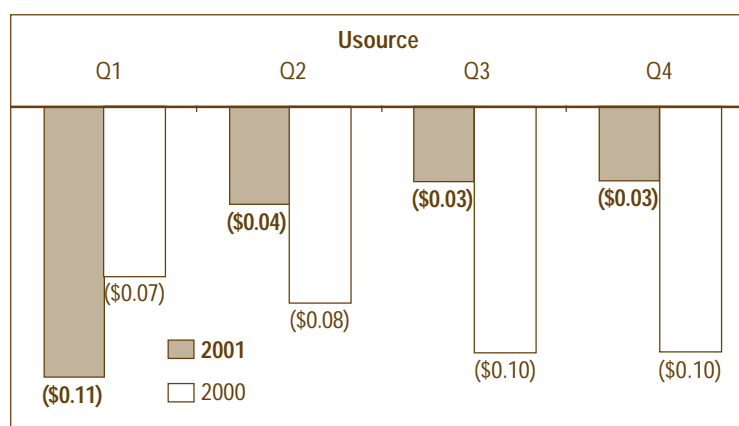
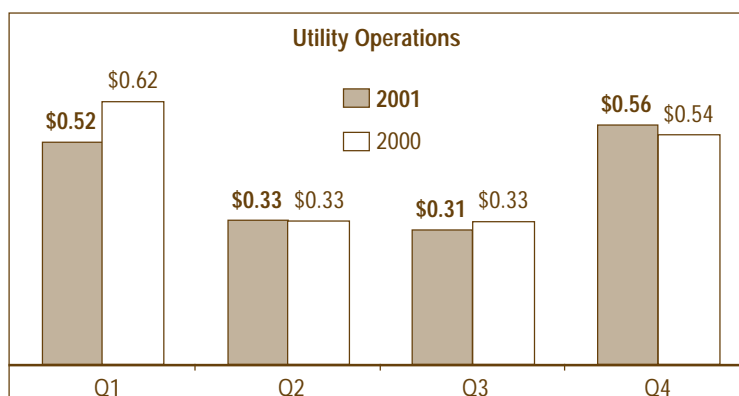
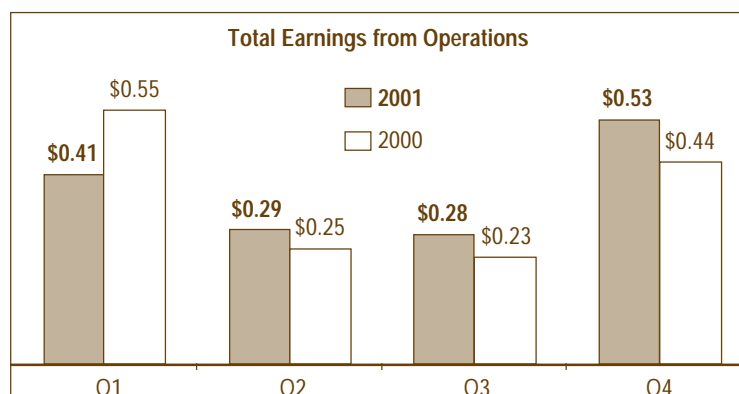
Total Operating Revenues in 2001 increased to \$207,022, or 13%, over year 2000 Operating Revenues. This increase primarily reflects a period of rising and highly volatile wholesale energy prices for electric and natural gas energy commodities, during 2000 and early 2001, which resulted in increased gas and electric supply related revenues and costs. Energy related supply costs are reconciled and recovered in revenues through regulated cost recovery adjustment mechanisms with no markup or profit margin. By mid-2001, energy costs began to ease allowing the Company to flow-through those savings to customers. Unitil has implemented several gas and electric energy related rate decreases in the latter half of 2001, principally due to the decline in these wholesale energy costs.

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

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

Unitil's utility operating companies continued to develop and implement comprehensive gas and electric utility industry restructuring plans and strategies in 2001. The Company's Massachusetts combination gas and elec-

Quarterly Earnings per Share from Operations*



* Does not include Extraordinary Item or Investment Write-down

tric utility, Fitchburg Gas and Electric Light Company (FG&E), received a series of state regulatory Orders during October 2001, which completed the review and disposition of a number of pending ratemaking and restructuring-related issues. As further discussed below (see Extraordinary Item), these regulatory Orders reflected a significant turning point in the Company's regulated busi-

ness environment and determined the treatment and recovery of restructuring-related Regulatory Assets and costs in Massachusetts.

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

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

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

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

bution services to its customers at the lowest or among the lowest rates in the region.

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

Usource Energy Brokering — In the face of a market contraction of Internet-based business expansion opportunities aimed at mid-market customers, the Company quickly refocused its energy brokering business in the first half of 2001 toward our core customer base. Usource has succeeded in brokerage energy transactions for large and medium-size customers and, in 2001, the Company targeted a deeper penetration of these customer segments and achieved good revenue growth. Usource was able to extend its reach in the Northeast to include new and expanding markets in Connecticut, Maine, Massachusetts and Pennsylvania.

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

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

energy trading platforms to execute transactions.

extraordinary item

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

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

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

As a result of the industry restructuring-related Orders, FG&E recorded a non-cash adjustment to Regulatory Assets of \$5.3 million, which resulted in the recognition of an extraordinary charge of \$3.9 million, net of

tax. The Company recognized the extraordinary charge of \$0.83 per share as of September 30, 2001.

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

investment write-down

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

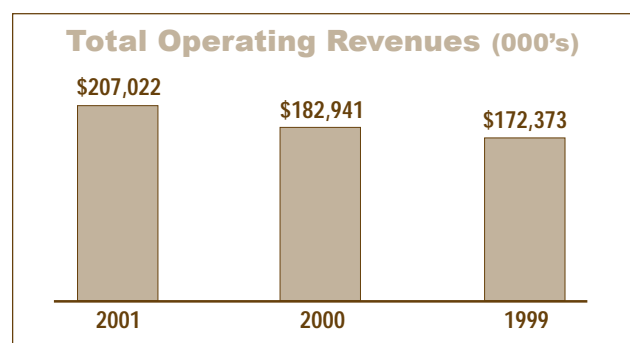
The Company had invested \$5.5 million in Enermetrix, Inc. (Enermetrix), an energy technology start-up enterprise, over the past several years. In accordance with SFAS No. 115, the Company recorded a non-cash charge of \$3.7 million, or \$2.4 million, net of tax, in the fourth quarter to recognize the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

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

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

results of operations

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



operating revenue - electric

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

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

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

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

of customers served by the Company, offset by a cooler-than-normal summer season in 2000.

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

kWh Sales (000's)

	2001	2000	1999
Residential	596,378	576,524	571,694
Commercial/Industrial	1,000,012	1,011,012	1,037,130
Total	1,596,390	1,587,536	1,608,824

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

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

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

Electric Operating Revenue (000's)

	2001	2000	1999
Residential	\$ 71,960	\$ 61,506	\$ 58,415
Commercial/Industrial	111,820	98,517	95,662
Total	\$ 183,780	\$ 160,023	\$ 154,077

operating revenue - gas

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

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

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

Firm Therm Sales (000's)

	2001	2000	1999
Residential	11,175	11,730	10,980
Commercial/Industrial	11,892	12,262	11,156
Total	23,067	23,992	22,136

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

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

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

Gas Operating Revenue (000's)

	2001	2000	1999
Residential	\$ 12,779	\$ 11,540	\$ 8,635
Commercial/Industrial	9,505	8,745	7,148
Total Firm Gas Revenue	22,284	20,285	15,783
Interruptible Gas Revenue	544	2,471	2,333
Total	\$ 22,828	\$ 22,756	\$ 18,116

operating revenue - other

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

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

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

Other Revenue (000's)

	2001	2000	1999
Usource	\$ 384	\$ 131	\$ 45
Other	30	31	135
Total	\$ 414	\$ 162	\$ 180

operating expenses

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

In 2000, Fuel and Purchased Power expenses increased \$8.1 million, or 7.9%, as compared to 1999.

This change was driven by an increase in wholesale power prices.

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

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

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

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

depreciation, amortization & taxes

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

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

Federal and State Income Taxes remained level,

reflecting the fact that the Company's effective tax rate remained the same for 2001 and 2000. In 2000, taxes decreased by \$0.6 million, or 15.7%, compared to 1999, as a result of lower net income before taxes.

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

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

interest expense, net

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

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

Usource

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

capital requirements and liquidity

Unitil requires capital primarily for the addition of

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

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

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

Significant Contractual Obligations (000's)

	Total	Year 1	Years 2 & 3	Years 4 & 5	Years 6 & after
Long-term Debt (Note 6)	\$ 110,694	\$ 3,225	\$ 6,508	\$ 596	\$ 100,365
Capital Lease (Note 8)	5,280	1,404	1,722	802	1,352
Power Supply Buyout - MA (Note 10)	88,779	7,253	14,602	14,968	51,956
Purchased Power - NH (Note 10)	303,385	61,765	93,951	63,985	83,684
Gas Supply Obligations - (Note 10)	5,711	3,175	2,536	—	—
Total Significant Contractual Obligations	\$ 513,849	\$ 76,822	\$ 119,319	\$ 80,351	\$ 237,357

In addition to the significant contractual obligations listed in the above table, the Company also provides limited guarantees on certain energy contracts entered into by its

regulated subsidiary companies. The term of these guarantees cannot exceed two years. Currently, there are \$1.1 million of guarantees outstanding and these guarantees expire within the next eighteen months.

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

Operating Activities (000's)

	2001	2000	1999
	<u>\$23,208</u>	<u>\$8,864</u>	<u>\$18,308</u>

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

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

Investing Activities (000's)

	2001	2000	1999
	<u>(\$19,578)</u>	<u>(\$22,249)</u>	<u>(\$15,131)</u>

Cash Flows from Financing Activities decreased by \$14.2 million in 2001 compared to 2000. This decrease primarily reflects proceeds received from the issuance of long-term debt, offset by a repayment of short- and

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

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

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

Unitil's annual Common Stock dividend in 2001 was \$1.38 per share. This annual dividend resulted in a pay-

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

Financing Activities (000's)

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

regulatory matters

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

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

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

In New Hampshire, Concord Electric Company

(CECo) and Exeter & Hampton Electric Company (E&H), the Company's electric distribution operating subsidiaries, and Unitil Power Corp. (UPC), the Company's wholesale power supply company, continue to prepare for the transition to a new market structure. As discussed further below, on January 25, 2002, the Companies filed a comprehensive restructuring proposal with the NHPUC to comply with the State's restructuring law and provide retail choice to its customers.

Unitil has also been an active participant in the restructuring of the wholesale power market and transmission system in New England. New wholesale markets have been implemented in the New England Power Pool (NEPOOL) under the general supervision of an Independent System Operator (ISO) and the regulatory oversight of the FERC.

Massachusetts Electric Operations Restructuring —

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

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

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

sequent year, subject to further investigation.

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

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

On December 27, 2001, the MDTE approved FG&E's SOSFA and base rates for effect January 1, 2002, subject to further investigation. With the MDTE's resolution of cost recovery issues in its October 2001 Orders and anticipated final approval of FG&E's compliance filing, FG&E's financial risk associated with its unbundled cost recovery mechanisms is significantly reduced. The MDTE also al-

lowed FG&E to implement the SOSFA for 2002. FG&E is required to notify the MDTE 45 days in advance of when all SOSFA-related costs are projected to be recovered.

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

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

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

Northeast Utilities' affiliate, Public Service Company of New Hampshire (PSNH), filed suit in U.S. District Court for protection from the Final Plan and related orders and was granted an indefinite stay. In June 1997, Unitil, and

other utilities in New Hampshire, intervened as plaintiffs in the federal court proceeding. In June 1998, the federal court clarified that the injunctions issued by the court in 1997 had effectively frozen the NHPUC's efforts to implement restructuring. This amended injunction has been challenged by the NHPUC, and affirmed by the First Circuit Court of Appeals. Unitil continues to be a plaintiff-intervenor in federal district court. In October 2000, the NHPUC approved a settlement for the restructuring of PSNH, which was implemented on May 1, 2001.

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

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

Rate Proceedings — Aside from Unitil's NH restructuring proposal discussed above, the last formal regulatory filings initiated by the Company to increase base rates for Unitil's three retail electric operating subsidiaries occurred in 1985 for CECO, 1984 for FG&E, and 1981 for E&H. A majority of the Company's electric operating revenues are collected under various periodic rate adjustment mechanisms including fuel, purchased power, cost of gas, energy efficiency, and restructuring-related

cost recovery mechanisms. Electric industry restructuring will continue to change the methods of how certain costs are recovered through the Company's regulated rates and tariffs.

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

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

Performance Based Ratemaking — On October 29, 1999, the MDTE initiated a proceeding to establish guidelines for service quality standards to be included in

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

environmental matters

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

Since 1991, FG&E has recovered the environmental response costs incurred at this former MGP site pursuant to a MDTE approved Settlement Agreement (Agreement) between FG&E, certain other Massachusetts gas utilities and the Massachusetts Attorney General. The

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

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

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

FG&E, working closely with the DEP and the Massachusetts Attorney General, brought an action in 1986 in the Worcester Superior Court, against Rockware. On July 16, 1990, FG&E filed an amended complaint and obtained a preliminary injunction barring Rockware from

removing anything of value from the Fitchburg facility and barring it from further encumbering the property. It also obtained an attachment encumbering all of Rockware's goods, equipment and property, located in Fitchburg, Massachusetts. On June 3, 1993, FG&E, Rockware and WRW entered into an agreement for judgement in favor of the Company in the amount of \$1.6 million and the preliminary injunctions became permanent. FG&E has been unable to collect any amounts from WRW and/or Rockware due to their bankruptcies.

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

Due to the continuing deterioration of this former electric generating station and Rockware's continued lack of performance, FG&E, in concert with the DEP and the U.S. Environmental Protection Agency (EPA), conducted further testing and survey work during 2001 to ascertain the environmental status of the building. These recent surveys have revealed continued deterioration of the asbestos containing insulation materials in the building. During an informal meeting on February 8, 2002, the EPA and DEP indicated to the Company that remedial actions are necessary. The Company anticipates receiving a Notice of Responsibility from the EPA by the end of the first quarter of 2002. The Company anticipates that this Notice will require specific remedial action, including abatement and removal of asbestos containing materials. At this time, the Company is uncertain as

to the cost of the further remedial action that may be required by environmental regulators or for what portion of the cost the Company will be held responsible. However, the Company believes that its liability insurance policies will provide significant coverage for the costs of any clean-up effort and that the ultimate resolution of these matters will not have a material adverse impact on the Company's financial position.

market risk

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

forward-looking information

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

consolidated statements of earnings

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

Year Ended December 31,

	2001	2000	1999
Operating Revenues:			
Electric	\$ 183,780	\$ 160,023	\$ 154,077
Gas	22,828	22,756	18,116
Other	414	162	180
Total Operating Revenues	207,022	182,941	172,373
Operating Expenses:			
Fuel and Purchased Power	132,947	110,280	102,171
Gas Purchased for Resale	13,827	13,492	9,854
Operation and Maintenance	25,000	24,545	24,404
Depreciation and Amortization	12,767	11,964	11,412
Provisions for Taxes:			
Local Property and Other	4,666	4,967	5,077
Federal and State Income	3,421	3,413	4,047
Total Operating Expenses	192,628	168,661	156,965
Operating Income	14,394	14,280	15,408
Non-Operating Expenses:			
Decrease in Market Value of			
Non-Utility Investments, net of tax	2,400	—	—
Other Non-Operating Expenses	170	244	51
Income Before Interest Expense and Extraordinary Item	11,824	14,036	15,357
Interest Expense, net	6,797	6,820	6,919
Net Income before Extraordinary Item	5,027	7,216	8,438
Extraordinary Item, net of tax	3,937	—	—
Net Income	1,090	7,216	8,438
Less: Dividends on Preferred Stock	257	263	268
Net Income Applicable to Common Stock	\$ 833	\$ 6,953	\$ 8,170
Average Common Shares Outstanding - Basic	4,743,576	4,723,171	4,682,273
Average Common Shares Outstanding - Diluted	4,759,822	4,742,745	4,697,049

Basic and Diluted Earnings per Common Share

Net Income before Extraordinary Item	\$ 1.01	\$ 1.47	\$ 1.74
Extraordinary Item, net of tax	\$ (0.83)	\$ —	\$ —
Net Income	\$ 0.18	\$ 1.47	\$ 1.74

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

consolidated balance sheets (000's)

assets

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

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

capitalization & liabilities

December 31,

Capitalization:

Common Stock Equity
Preferred Stock, Non-Redeemable, Non-Cumulative
Preferred Stock, Redeemable, Cumulative
Long-Term Debt, Less Current Portion
Total Capitalization

2001	2000
\$ 74,746	\$ 79,935
225	225
3,384	3,465
107,470	81,695
185,825	165,320

Current Liabilities:

Long-Term Debt, Current Portion
Capitalized Leases, Current Portion
Accounts Payable
Short-Term Debt
Dividends Declared and Payable
Refundable Customer Deposits
Interest Payable
Other Current Liabilities
Total Current Liabilities

3,224	3,207
988	935
20,084	18,539
13,800	32,500
109	209
1,393	1,252
1,375	1,150
6,328	6,377
47,301	64,169

Deferred Income Taxes

47,113	45,859
--------	--------

Noncurrent Liabilities:

Power Supply Buyout Obligations
Capitalized Leases, Less Current Portion
Other Noncurrent Liabilities
Total Noncurrent Liabilities

88,779	97,342
2,945	3,259
4,799	7,018
96,523	107,619

TOTAL

\$ 376,762	\$ 382,967

(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,

Common Stock Equity

Common Stock, No Par Value (Authorized - 8,000,000 shares;

Outstanding - 4,743,696 and 4,734,917 shares)

Stock Options

Retained Earnings

Total Common Stock Equity

Preferred Stock

CECo Preferred Stock, Non-Redeemable, Non-Cumulative:

6.00% Series, \$100 Par Value

CECo Preferred Stock, Redeemable, Cumulative:

8.70% Series, \$100 Par Value

E&H Preferred Stock, Redeemable, Cumulative:

5.00% Series, \$100 Par Value

6.00% Series, \$100 Par Value

8.75% Series, \$100 Par Value

8.25% Series, \$100 Par Value

FG&E Preferred Stock, Redeemable, Cumulative:

5.125% Series, \$100 Par Value

8.00% Series, \$100 Par Value

Total Preferred Stock

Long-Term Debt

CECo First Mortgage Bonds:

Series I, 8.49%, Due October 14, 2024

Series J, 6.96%, Due September 1, 2028

Series K, 8.00%, Due May 1, 2031

E&H First Mortgage Bonds:

Series K, 8.49%, Due October 14, 2024

Series L, 6.96%, Due September 1, 2028

Series M, 8.00%, Due May 1, 2031

FG&E Long-Term Notes:

8.55% Notes, Due March 31, 2004

6.75% Notes, Due November 30, 2023

7.37% Notes, Due January 15, 2029

7.98% Notes, Due June 1, 2031

Unitil Realty Corp. Senior Secured Notes:

8.00% Notes, Due August 1, 2017

Total Long-Term Debt

Less: Long-Term Debt, Current Portion

Total Long-Term Debt, Less Current Portion

Total Capitalization

2001	2000
\$ 41,220	\$ 40,991
669	376
32,857	38,568
74,746	79,935
225	225
215	215
91	91
168	168
333	333
385	385
960	973
1,232	1,300
3,609	3,690
6,000	6,000
10,000	10,000
7,500	—
9,000	9,000
10,000	10,000
7,500	—
9,000	12,000
19,000	19,000
12,000	12,000
14,000	—
6,694	6,902
110,694	84,902
3,224	3,207
107,470	81,695
\$ 185,825	\$ 165,320

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

consolidated statements of cash flows (000's)

Year Ended December 31,

Cash Flows from Operating Activities:

	2001	2000	1999
Net Income	\$ 1,090	\$ 7,216	\$ 8,438
Adjustments to Reconcile Net Income to			
Cash Provided by Operating Activities:			
Depreciation and Amortization	12,767	11,964	11,412
Deferred Tax Provision	(607)	3,522	72
Amortization of Investment Tax Credit	(153)	(256)	(322)
Changes in Current Assets and Liabilities:			
Accounts Receivable	2,924	(3,427)	(631)
Prepayments and other	(1,690)	(2,393)	2
Accrued Revenue	7,973	(6,340)	(1,087)
Accounts Payable	1,545	2,024	5,133
Interest Payable and other	366	(145)	413
Other, net	(1,007)	(3,301)	(5,122)

Cash Provided by Operating Activities

23,208 8,864 18,308

Cash Flows from Investing Activities:

Acquisitions of Property, Plant & Equipment	(19,890)	(21,092)	(15,411)
Proceeds from Sale of Electric Generating Assets	342	—	5,288
Acquisitions of other Property and Investments	(30)	(1,157)	(5,008)

Cash Used in the Investing Activities

(19,578) (22,249) (15,131)

Cash Flows from Financing Activities:

Proceeds from (Repayment of) Short-Term Debt, net	(18,700)	22,000	(9,500)
Proceeds from Issuance of Long-Term Debt	29,000	—	12,000
Repayment of Long-Term Debt	(3,208)	(1,255)	(1,065)
Dividends Paid	(6,902)	(6,787)	(6,722)
Issuance of Common Stock, net	229	639	1,945
Retirement of Preferred Stock	(81)	(68)	(86)
Repayment of Capital Lease Obligations	(952)	(931)	(985)

Cash (Used In) Provided by Financing Activities

(614) 13,598 (4,413)

Net Increase (Decrease) in Cash

3,016 213 (1,236)

Cash at Beginning of Year

3,060 2,847 4,083

Cash at End of Year

\$ 6,076 \$ 3,060 \$ 2,847

Supplemental Cash Flow Information:

Interest Paid	\$ 8,988	\$ 8,640	\$ 7,164
Federal Income Taxes Paid	\$ 3,174	\$ 350	\$ 4,018
State Income Taxes Paid	\$ 1,091	\$ 477	\$ 700

Supplemental Schedule of Noncash Activities:

Capital Leases Incurred	\$ 691	\$ 363	\$ 553
-------------------------	--------	--------	--------

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

consolidated statements of changes in common stock equity

(000's, except number of shares)

	Common Shares	Deferred Stock Option Plan	Retained Earnings	Total
Balance at January 1, 1999	\$ 38,407	\$ 543	\$ 36,401	\$ 75,351
Net Income for 1999			8,438	8,438
Dividends on Preferred Shares			(268)	(268)
Dividends on Common Shares - at \$1.38 per Share			(6,442)	(6,442)
Stock Option Plan		116		116
Exercised Stock Options - 109,753 Shares	2,543	(1,739)		804
Issuance of 27,619 Common Shares (a)	676			676
Effect of Termination of Stock Option Plan	(1,274)	1,274		—
Balance at December 31, 1999	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 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
Re-acquired and Retired Stock (b)	(58)			(58)
Balance at December 31, 2001	\$ 41,220	\$ 669	\$ 32,857	\$ 74,746

(a) Shares sold and issued in connection with the Company's Dividend Reinvestment and Stock Purchase Plan and Employee 401(k) Tax Deferred Savings and Investment Plan (See Note 4).

(b) Shares repurchased in conjunction with the Company's interim stock repurchase program (See Note 4).

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

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. The following companies are wholly-owned subsidiaries of Unitil: Concord Electric Company (CECo), Exeter & Hampton Electric Company (E&H), Fitchburg Gas and Electric Light Company (FG&E), Unitil Power Corp. (UPC), Unitil Realty Corp. (URC), Unitil Service Corp. (USC), and its non-regulated business unit Unitil Resources, Inc. (URI). Usource, Inc. and Usource L.L.C. (collectively, Usource) are subsidiaries of Unitil Resources, Inc.

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

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

basis of presentation

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

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

Massachusetts and New Hampshire have both passed utility industry restructuring legislation and the Company has filed and implemented its restructuring plan in Massachusetts. In Massachusetts, the Company is allowed to recover previously deferred costs through ongoing assessments to be included in future regulated service rates. For example, the Company divested of all of its generation assets and power contracts and discontinued applying SFAS No. 71 to the generation portion of its assets and operations in Massachusetts. However, based on the recovery mechanism that

allows recovery of all of its stranded costs, as finally determined through its electric distribution service rates, the Company has recorded a regulatory asset that it expects to fully recover in future periods. The Company expects to continue to meet the criteria for the application of SFAS No. 71 for the remaining portion of its assets and operations for the foreseeable future. If a change in accounting were to occur to the non-generation portion of the Company's operations, it could have a material adverse effect on the Company's earnings and retained earnings in that year and could have a material adverse effect on the Company's ongoing financial condition as well.

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

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

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

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

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

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

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

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

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

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

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

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

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

note 2: extraordinary item

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

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

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

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

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

note 3: investment write-down

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

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

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

The Company has valued its investment in Enermetrix at December 31, 2001, at \$1.8 million. Future market value

risk is inherent in this investment in Enermetrix, which is an energy technology start-up enterprise. The Company will continue to monitor the value of its investment and periodically assess the impact, if any, on future period reported earnings.

note 4: common stock

New Shares Issued — During 2001, the Company raised \$287,000 of additional common equity capital through the issuance of 11,279 shares of Common Stock in connection with the Dividend Reinvestment and Stock Purchase Plan. The Dividend Reinvestment and Stock Purchase Plan provides participants in the plan a method for investing cash dividends on the Company's Common Stock and cash payments in additional shares of the Company's Common Stock. In 2000, the Company raised \$639,000 of additional common equity capital through the issuance of 22,916 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan and the Employee 401(k) Tax Deferred Savings and Investment Plan. The Employee 401(k) Tax Deferred Savings and Investment Plan is described in Note 11.

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

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

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

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

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

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

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

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

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

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

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

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

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

note 5: preferred stock

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

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

note 6: long-term debt and Interest Expense

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

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

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

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

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

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

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

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

note 7: credit arrangements

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

note 8: leases

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

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

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

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

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

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

note 9: income taxes

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

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

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

Federal and State Tax Provisions (000's)	2001	2000	1999
Federal			
Current	\$ 3,566	\$ (9)	\$ 3,492
Deferred	(563)	3,066	65
Amortization of Investment Tax Credits	(153)	(256)	(322)
Total Federal Tax Provision	2,850	2,801	3,235
State			
Current	615	155	805
Deferred	(44)	457	7
Total State Tax Provision	571	612	812
Federal and State Income Taxes - Operating Expenses	\$ 3,421	\$ 3,413	\$ 4,047

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

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

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

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

Deferred Income Taxes (000's)	2001	2000
Accelerated Depreciation	\$ 24,020	\$ 24,519
Abandoned Property	4,845	6,786
Contributions in Aid of Construction	(3,360)	(3,050)
Percentage Repair Allowance	2,165	1,956
Retirement Loss	3,177	2,820
Employee Benefit Plans	3,551	3,131
Unamortized FAS 109 Adjustments	5,563	3,129
Deferred Charges	5,954	7,136
Gain on Sale of New Haven Harbor	—	(1,562)
Other	1,198	994
Total Deferred Income Tax	\$ 47,113	\$ 45,859

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

note 10: energy supply

Massachusetts:

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

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

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

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

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

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

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

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

New Hampshire:

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

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

Unit Fuel Type	2000 Energy MW Winter Entitlements	Purchased (mWh's)	Contract End Date	Estimated Annual Minimum Payments which Cover Future Debt Service Requirements
Gas	25	121,780	2010	
Oil/Gas	2	3,300	2003	
Oil/Gas	16	63,726	2006	
Oil	10	24,592	2005	
Oil	10	11,288	2008	
Coal	14	93,558	2005	
Nuclear	5	39,088	2005	
Nuclear	10	75,591	2010	
Nuclear	2	9,859	2013	
Refuse	6	43,493	2003	
System	18	42,350	2002	
System	30	123,635	Variable	
Various	100	382,217	Short-Term	
Coal/Gas	N/A	N/A	2009	(1)
Gas	N/A	N/A	2008	(1)
Transmission	N/A	N/A	2020	\$ 863,000 (2)

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

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

note 11: benefit plans

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

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

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

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

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

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

Post-Retirement Benefits — The Company's subsidiaries provide health care benefits to retirees for a 12-month period following their retirement. The Company's subsidiaries continue to provide life insurance coverage to retirees. Life insurance and limited health care post-retirement benefits require the Company to accrue post-retirement benefits during the employee's years of service with the Company and the recognition of the actuarially determined total post-retirement benefit obligation earned by existing retirees. At December 31, 2001, 2000, and 1999, the accumulated post-retirement benefit obligation (transition obligation) was approximately \$235,000, \$257,000, and \$278,000, respectively, and the period cost associated with these benefits for 2001, 2000, and 1999 was approximately \$107,000, \$90,000, and \$84,000, respectively. This obligation is being recognized on a delayed basis over the average remaining service period of active participants, and such period will not exceed 20 years.

note 12: earnings per share

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

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

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

note 13: segment information

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

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

The segments follow the same accounting policies as described in the Summary of Significant Accounting Policies. Intersegment sales take place at cost and the effects of all intersegment and/or intercompany transactions are eliminated in the consolidated financial statements. Segment profit or loss is based on profit or loss from operations after income taxes. Expenses used to determine operating income before taxes are charged

directly to each segment or are allocated in accordance with factors contained in cost-of-service studies, which were included in rate applications approved by the NHPUC and MDTE. Assets allocated to each segment are based upon specific identification of such assets provided by Company records.

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

	Electric	Gas	Other	Usource	Eliminations	Total
Year Ended December 31, 2001 (000's)						
Revenues						
External Customers	\$ 183,780	\$22,828	\$ 30	\$ 384		\$207,022
Intersegment	—	—	20,151	—	(20,151)	—
Depreciation and Amortization	9,025	1,760	1,753	229		12,767
Interest, net	4,388	1,576	801	32		6,797
Income Taxes	4,527	(457)	2	(651)		3,421
Segment Profit (Loss) from Operations	8,771	(771)	172	(1,002)		7,170
Investment Write-down, net of tax	—	—	(2,400)	—		(2,400)
Extraordinary Item, net of tax	(3,937)	—	—	—		(3,937)
Identifiable Segment Assets	288,013	87,851	24,008	505	(23,615)	376,762
Capital Expenditures	13,986	4,817	775	—		19,578
Year Ended December 31, 2000 (000's)						
Revenues						
External Customers	\$ 160,023	\$22,756	\$ 31	\$ 131		\$182,941
Intersegment	—	—	17,967	—	(17,967)	—
Depreciation and Amortization	8,815	1,575	1,344	230		11,964
Interest, net	4,797	1,370	629	24		6,820
Income Taxes	4,051	199	3	(840)		3,413
Segment Profit (Loss) from Operations	7,923	662	22	(1,654)		6,953
Identifiable Segment Assets	286,437	89,917	21,444	3,629	(18,460)	382,967
Capital Expenditures	14,066	3,821	1,299	3,063		22,249
Year Ended December 31, 1999 (000's)						
Revenues						
External Customers	\$ 154,077	\$18,116	\$ 135	\$ 45		\$172,373
Intersegment	—	—	19,089	—	(19,089)	—
Depreciation and Amortization	8,362	1,458	1,492	100		11,412
Interest, net	5,094	1,255	549	21		6,919
Income Taxes	4,051	(200)	456	(260)		4,047
Segment Profit (Loss) from Operations	7,830	320	494	(474)		8,170
Identifiable Segment Assets	269,616	87,546	26,466	703	(20,804)	363,527
Capital Expenditures	6,905	2,266	5,373	587		15,131

note 14: commitments and contingencies

regulatory matters

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

stranded costs over a period of years. Unitil will offer customers a three-year transition service at specified prices and a permanent default service. These services will be procured from the competitive wholesale market.

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

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

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

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

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

environmental matters

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

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

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

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

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

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

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

During an informal meeting on February 8, 2002, the EPA and DEP indicated to the Company that remedial actions are necessary. The Company anticipates receiving a Notice of Responsibility from the EPA by the end of the first quarter of 2002. The Company anticipates that this Notice will require specific remedial action, including abatement and removal of asbestos containing materials. At this time, the Company is uncertain as to the cost of the further remedial action that may be required by environmental regulators or what portion of the cost the Company will be held responsible. However, the Company believes that its liability insurance policies will provide significant coverage for the costs of any clean-up effort and that the ultimate resolution of these matters will not have a material adverse impact on the Company's financial position.

report of independent certified public accountants



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

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

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

A stylized, handwritten signature of "Grant Thornton LLP" in dark ink.

Boston, Massachusetts
February 5, 2002

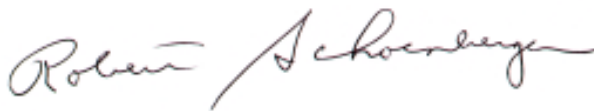
report of management

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



Anthony J. Baratta, Jr.
Senior Vice President
Chief Financial Officer

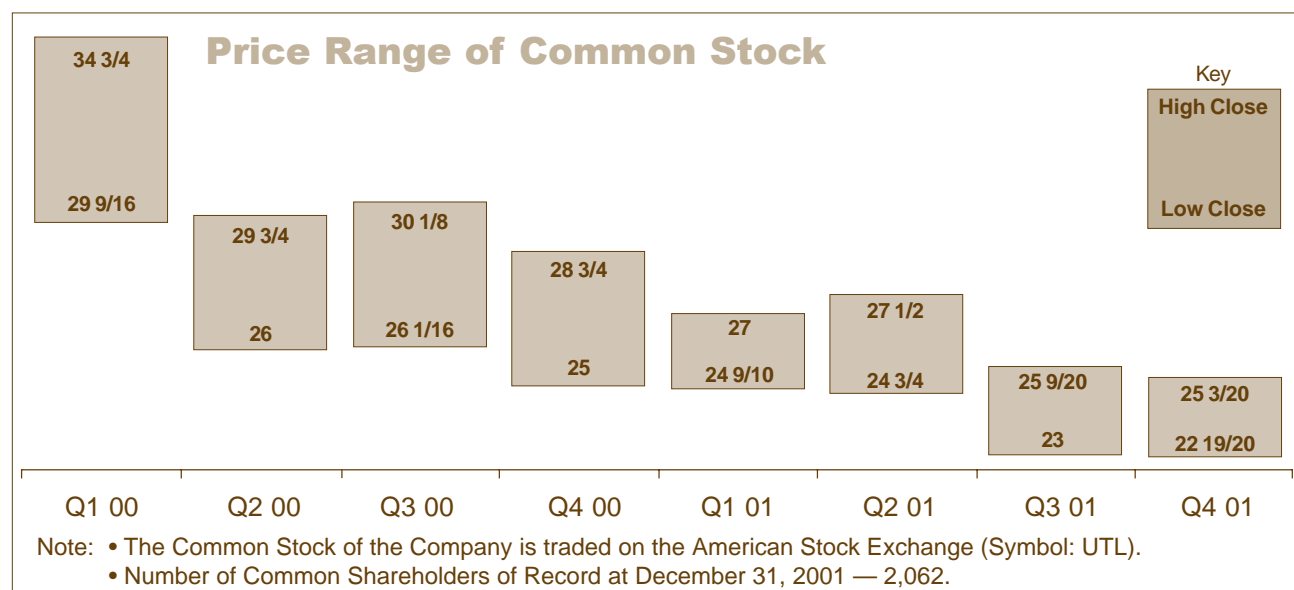
Hampton, New Hampshire
February 5, 2002

selected consolidated financial data

	2001	2000	1999
Consolidated Statements of Earnings (000's)			
Operating Income	\$ 14,394	\$ 14,280	\$ 15,408
Investment Write-down, net of tax	2,400	—	—
Non-Operating Expense (Income)	170	244	51
Gross Income	11,824	14,036	15,357
Income Deductions	6,797	6,820	6,919
Net Income before Extraordinary Item	5,027	7,216	8,438
Extraordinary Item, net of tax	3,937	—	—
Net Income before Dividends	1,090	7,216	8,438
Dividends on Preferred Stock	257	263	268
Net Income Applicable to Common Stock	\$ 833	\$ 6,953	\$ 8,170
Balance Sheet Data (000's)			
Utility Plant (Original Cost)	\$ 255,498	\$ 238,023	\$ 219,838
Total Assets	\$ 376,762	\$ 382,967	\$ 363,527
Capitalization:			
Common Stock Equity	\$ 74,746	\$ 79,935	\$ 78,675
Preferred Stock	3,609	3,690	3,757
Long-Term Debt	107,470	81,695	86,157
Total Capitalization	\$ 185,825	\$ 165,320	\$ 168,589
Short-Term Debt	\$ 13,800	\$ 32,500	\$ 10,500
Capital Structure Ratios (%):			
Common Stock Equity	37%	40%	44%
Preferred Stock	2%	2%	2%
Long-Term Debt	54%	41%	48%
Short-Term Debt	7%	16%	6%
Earnings Per-Share Data			
Before Investment Write-down and Extraordinary Item:			
Basic Earnings per Average Share	\$ 1.51	\$ 1.47	\$ 1.74
Diluted Earnings per Average Share	\$ 1.51	\$ 1.47	\$ 1.74
After Investment Write-down and Before Extraordinary Item:			
Basic Earnings per Average Share	\$ 1.01	\$ 1.47	\$ 1.74
Diluted Earnings per Average Share	\$ 1.01	\$ 1.47	\$ 1.74
After Investment Write-down and Extraordinary Item:			
Basic Earnings per Average Share	\$ 0.18	\$ 1.47	\$ 1.74
Diluted Earnings per Average Share	\$ 0.18	\$ 1.47	\$ 1.74
Common Stock Data			
Shares of Common Stock (Year-End) (000's)	4,744	4,735	4,712
Shares of Common Stock (Average) (000's)	4,744	4,723	4,682
Dividends Paid per Share (Year-End)	\$ 1.38	\$ 1.38	\$ 1.38
Book Value per Share (Year-End)	\$ 15.76	\$ 16.88	\$ 16.70
Electric and Gas Statistics			
Electric Distribution Sales (mWh)	1,596,390	1,587,536	1,608,824
Electric Customers (Year-End)	95,116	94,050	92,505
Gas Distribution Sales (000's of Therms)	23,067	23,992	22,136
Gas Customers (Year-End)	14,879	14,796	14,928

	1998	1997	1996	1995	1994	1993	1992
	\$ 15,306	\$ 15,562	\$ 14,273	\$ 14,225	\$ 13,754	\$ 14,073	\$ 13,342
	—	—	—	—	—	—	—
	156	160	(627)	217	64	(50)	(22)
	15,150	15,402	14,900	14,008	13,690	14,123	13,364
	6,901	7,167	6,171	5,639	5,652	6,523	6,793
	8,249	8,235	8,729	8,369	8,038	7,600	6,571
	—	—	—	—	—	—	—
	8,249	8,235	8,729	8,369	8,038	7,600	6,571
	274	276	278	284	291	298	352
	\$ 7,975	\$ 7,959	\$ 8,451	\$ 8,085	\$ 7,747	\$ 7,302	\$ 6,219
	\$ 209,462	\$ 219,475	\$ 207,545	\$ 190,177	\$ 178,777	\$ 171,540	\$ 165,880
	\$ 376,835	\$ 238,531	\$ 232,108	\$ 211,702	\$ 204,521	\$ 201,509	\$ 172,348
	\$ 75,351	\$ 71,644	\$ 67,974	\$ 63,895	\$ 59,997	\$ 56,234	\$ 52,608
	3,843	3,891	3,891	3,999	4,094	4,198	4,277
	75,222	68,366	62,211	63,505	65,580	57,378	62,041
	\$ 154,416	\$ 143,901	\$ 134,076	\$ 131,399	\$ 129,671	\$ 117,810	\$ 118,926
	\$ 20,000	\$ 18,000	\$ 21,400	\$ 2,700	—	\$ 8,400	\$ 4,780
	43%	44%	44%	48%	46%	45%	43%
	2%	2%	3%	3%	3%	3%	3%
	43%	42%	40%	47%	51%	45%	50%
	11%	11%	14%	2%	0%	7%	4%
	\$ 1.77	\$ 1.80	\$ 1.94	\$ 1.88	\$ 1.83	\$ 1.75	\$ 1.50
	\$ 1.72	\$ 1.76	\$ 1.89	\$ 1.85	\$ 1.80	\$ 1.72	\$ 1.49
	\$ 1.77	\$ 1.80	\$ 1.94	\$ 1.88	\$ 1.83	\$ 1.75	\$ 1.50
	\$ 1.72	\$ 1.76	\$ 1.89	\$ 1.85	\$ 1.80	\$ 1.72	\$ 1.49
	\$ 1.77	\$ 1.80	\$ 1.94	\$ 1.88	\$ 1.83	\$ 1.75	\$ 1.50
	\$ 1.72	\$ 1.76	\$ 1.89	\$ 1.85	\$ 1.80	\$ 1.72	\$ 1.49
	4,575	4,464	4,384	4,330	4,268	4,205	4,152
	4,506	4,413	4,354	4,299	4,234	4,181	4,133
	\$ 1.36	\$ 1.34	\$ 1.32	\$ 1.28	\$ 1.24	\$ 1.15	\$ 1.10
	\$ 16.47	\$ 16.05	\$ 15.50	\$ 14.76	\$ 14.06	\$ 13.37	\$ 12.67
	1,540,968	1,491,103	1,532,015	1,401,292	1,358,165	1,303,326	1,260,747
	91,729	90,776	89,149	88,316	86,782	85,383	85,131
	22,027	23,716	24,508	22,303	23,057	22,763	23,281
	14,915	14,943	14,848	14,846	15,012	15,340	15,514

selected consolidated financial data



quarterly financial data (Unaudited; 000's except per share data)

Quarterly earnings per share may not agree with the annual amounts due to rounding.

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	2001	2000	2001	2000	2001	2000	2001	2000
Total Operating Revenues	\$ 64,490	\$ 46,317	\$ 45,619	\$ 42,908	\$ 49,484	\$ 44,464	\$ 47,429	\$ 49,252
Operating Income	3,731	4,458	3,216	3,030	3,319	2,879	4,128	3,913
Investment Write-down	—	—	—	—	—	—	(2,400)	—
Extraordinary Item, net of tax	—	—	—	—	(3,937)	—	—	—
Net Income (Loss)	1,939	2,597	1,388	1,161	(2,583)	1,067	89	2,128
Basic and Diluted Earnings per Share:								
Before Extraordinary Item	0.41	0.55	0.29	0.25	0.28	0.23	0.03	0.44
After Extraordinary Item	0.41	0.55	0.29	0.25	(0.55)	0.23	0.03	0.44
Dividends Paid per Common Share	\$ 0.345	\$ 0.345	\$ 0.345	\$ 0.345	\$ 0.345	\$ 0.345	\$ 0.345	\$ 0.345

directors & officers

directors

William E. Aubuchon, III, Age 57 A 1999*
Chairman and Chief Executive Officer of W.E. Aubuchon Company, Inc., Westminster, MA.

David P. Brownell, Age 58 C 2001*
Senior Vice President of Tyco International, Ltd., Exeter, NH.

Michael J. Dalton, Age 61 1984*
President and Chief Operating Officer of Unitil Corporation.

Albert H. Elfner, III, Age 57 E^ 1999*
Retired Chairman and Chief Executive Officer of Evergreen Investment Management Company, Boston, MA.

Ross B. George, Age 69 A^ 1999*
Chairman of the Board of Simonds Industries, Inc., Fitchburg, MA.

Edward F. Godfrey, Age 52 A 2002*
Retired Executive Vice President and Chief Operating Officer of Keystone Investments, Incorporated, Boston, MA.

Michael B. Green, Age 52 C 2001*
President and Chief Executive Officer of Capital Regional Health Care and Concord Hospital, Concord, NH.

Eben S. Moulton, Age 55 C^E 2000*
President of Seacoast Capital Corporation, Danvers, MA.

M. Brian O'Shaughnessy, Age 59 E 1998*
Chairman of the Board, Chief Executive Officer and President of Revere Copper Products, Inc., Rome, NY.

Robert G. Schoenberger, Age 51 E 1997*
Chairman of the Board and Chief Executive Officer of Unitil Corporation.

Charles H. Tenney III, Age 54 E 1992*
Former Director of Corporate Services, Log On America, Inc., Providence, RI.

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

officers

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

Michael J. Dalton
President and Chief Operating Officer.

Anthony J. Baratta, Jr.
Senior Vice President and Chief Financial Officer.

Mark H. Collin
Treasurer and Secretary.

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 18, 2002, at 10:30 a.m.

10-k

The Company's annual report for 2001 on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge upon written request to:

Mark H. Collin, 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