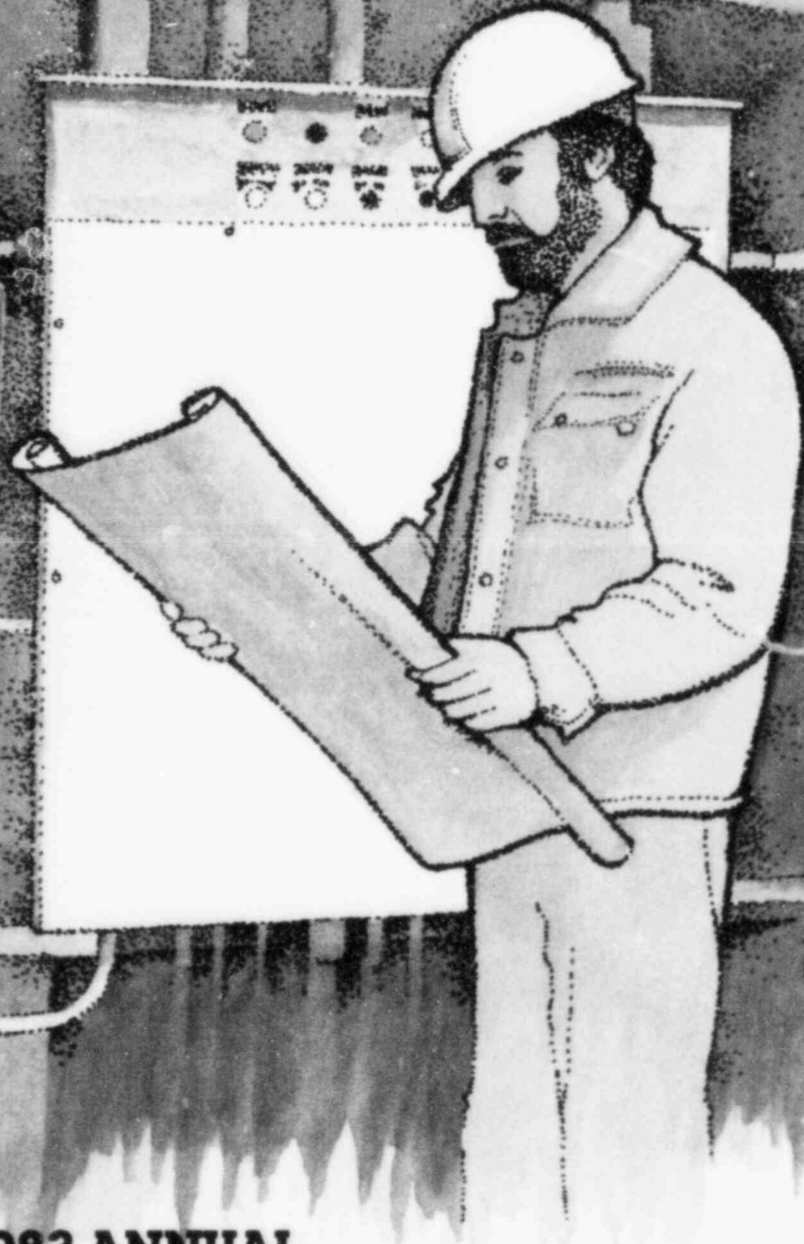
FG&E FITCHBURG GAS AND ELECTRIC LIGHT COMPANY



1983 ANNUAL REPORT

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The Common Stock of the Company is listed on the American Stock Exchange (Symbol: FGE) and the Boston Stock Exchange. The number of holders of record of the Company's Common Stock at December 31, 1983 was 3,436.

CASH DIVIDENDS PAID PER SHARE ON THE COMMON STOCK OF THE COMPANY

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	The Year
1983	$.65	$.65	$.65	$.65	$2.60
1982	$.65	$.65	$.65	$.65	$2.60

PRICE RANGE OF COMMON STOCK

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1983	High	22¼	22½	21⅞	21⅝
	Low	19½	20¼	20	18⅜
1982	High	19⅝	19¾	20⅛	22
	Low	17½	18¼	18	19¼

The Company expects to continue its policy of paying regular cash dividends, although there is no assurance as to future dividends because they are dependent on future earnings, capital requirements and financial conditions (see Management's Discussion and Analysis of Financial Condition and Results of Operations). In addition, the payment of dividends is subject to the restrictions described in Note 4 of Notes to Consolidated Financial Statements.

The annual meeting of common shareholders is scheduled to be held at The First National Bank of Boston, 100 Federal Street, Boston, Massachusetts, in the Directors' Room on the Second Floor, on Thursday, April 12, 1984, at 10:30 A.M.

The Company's annual report for 1983 on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge upon written request to Peter J. Stulgis, Vice President and Treasurer, Fitchburg Gas and Electric Light Company, 436 South River Road, RFD 5, Bedford, New Hampshire 03102.

The Company's Transfer Agent is The First National Bank of Boston, P.O. Box 644, Boston, Massachusetts 02102.

A Dividend Reinvestment and Stock Purchase Plan is available to all holders of the Company's Common and $4.00 Preferred Stock. This plan provides these shareholders with a simple and economical way to increase their investments in the Company automatically each quarter by reinvesting their dividends and/or making optional cash payments quarterly towards the purchase of additional shares of Common Stock. For information write to: The First National Bank of Boston, FGE Dividend Reinvestment Plan, P.O. Box 1681, Boston, Massachusetts 02105.

The First National Bank of Boston, P.O. Box 1897, Boston, Massachusetts 02105, is Trustee under indentures covering the Company's Notes due March 1, 1995 and May 1, 1999, respectively.

FG&E FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

Using our energies to serve you best

FINANCIAL HIGHLIGHTS OF 1983

	1983	1982
Net Income	$ 3,288,245	$ 1,990,205
Earnings per Average Common Share	$2.43	$1.86
Dividends Paid per Common Share	$2.60	$2.60
Electric Operating Revenues	$ 29,119,262	$ 28,193,890
Gas Operating Revenues	$ 19,757,977	$ 18,289,210
Total Operating Revenues	$ 4[illegible],877,239	$ 46,483,100
Kilowatt-Hours of Electricity Sold	348,487,926	336,366,775
Average Annual Kilowatt-Hour Sales per Residential Customer	4,929	4,852
Number of Electric Customers	23,233	22,869
Thousands of Cubic Feet of Gas Sold	2,551,245	2,653,131
Average Annual Cubic Feet Sales per Residential Customer	91,438	99,291
Number of Gas Customers	15,023	14,955
Net Utility Plant	$ 73,089,901	$ 62,366,276
Number of Employees	147	167
Number of Common Shareholders	3,436	2,953
Number of Preferred Shareholders	295	210

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This report, including the financial statements contained herein, is submitted for the general information of the shareholders of the Company, and is not intended to induce, or for use in connection with, any sale or purchase of securities.

TO OUR SHAREHOLDERS

1983 proved to be an eventful year at Fitchburg Gas and Electric Light Company, a year of transition and challenges met.

Earnings per common share increased to $2.43, on a greater number of shares outstanding, from the 1982 level of $1.86. FG&E estimates that, subject to a final review by the Internal Revenue Service, 100% of the dividends paid on its Common Stock and 72% of the dividends paid on its Preferred Stocks in 1983 are a return of capital for Federal income tax purposes and accordingly are not taxable as dividend income.

In early 1983, the Massachusetts Department of Public Utilities (DPU) granted gas and electric annual rate increases of $2.3 million and $2.1 million, respectively. This rate relief, along with an improved economy, had a significant impact on FG&E's increase in earnings per common share. Such earnings, however, still remain lower than allowed by the DPU.

The successful sale of 400,000 shares of Common Stock in October further confirmed the Company's commitment to continue to obtain new capital for its ongoing construction program. That sale and the ongoing sales of Common Stock to participants in the Dividend Reinvestment and Stock Purchase Plan and to the Employee Stock Ownership Plan enabled the Company to raise $8.6 million of new capital in 1983.

FG&E's voluntary early retirement program was accepted by 29 employees, including the President and the Controller. The program has allowed the Company to reduce personnel, decrease operating costs and reorganize both managerially and operationally. FG&E now has a young, eager and experienced management team prepared to meet the many challenges which exist in the utility industry.

The Company continues to seek opportunities to enhance its gas and electric supplies which will be advantageous to both shareholder and customer. In cooperation with other New England utilities, FG&E is aggressively pursuing contractual commitments for gas and hydroelectric energy from our Canadian neighbors. Simultaneously, the Company is investigating the potential procurement of domestically produced energy and its effect on FG&E's total energy mix.

The Company continued to closely scrutinize its participation in the Seabrook and Millstone Unit 3 nuclear generating projects in 1983. Much has been written and spoken in the past year about the nation's troubled nuclear industry. Such publicity demonstrates the need to ensure that these projects are prudently managed and brought to completion in a safe, economic and timely manner. FG&E's announcement on December 29, 1983 that it could no longer support construction of Seabrook Unit 2 was motivated by the uncertainty surrounding the actual completion date

of that Unit and its ultimate power cost. The Company does, however, expect to honor its contractual obligations with respect to Seabrook Unit 2. FG&E will continue to closely monitor these plants and initiate and support those actions which will benefit our shareholders and customers.

1984 corporate objectives are directed towards providing reliable, economic service to our customers, while at the same time earning a fair return for our investors. In support of these objectives, each department manager has developed a measurable set of goals to meet these challenges.

While FG&E is relatively well positioned to meet the challenges ahead, we must face changing economic conditions and regulatory complexities. However, with the positive attitude and talents of our employees and the continued support of our shareholders, we are confident of the future.

On the following pages you will find details of the 1983 operating year and a presentation of the Company's financial performance. We appreciate your continued interest in the Company.

Charles H. Tenney II
Chairman of the Board of Directors and President

1983 YEAR IN REVIEW

EARNINGS

The Company's financial condition improved in 1983. Net income applicable to Common Stock for 1983, after increased Preferred Stock dividend requirements, was $2.3 million, an increase of 61% from 1982. Earnings per share of Common Stock, on a greater number of shares outstanding, were $2.43 in 1983 compared to $1.86 in 1982. The increase in net income resulted primarily from rate relief granted by the Massachusetts Department of Public Utilities (DPU), reduction in the net amortization of cost of abandoned properties, lower property taxes and greater electric sales. As a result of improved earnings in 1983, the Company's return on average common equity increased to 9.7% for the year ended December 31, 1983 from 7.7% for the year ended December 31, 1982.

Sales of electric energy to approximately 23,000 electric customers on the FG&E system increased 3.67% in 1983. This growth is an indication that the service area is recovering from a sluggish economy and is experiencing residential, commercial and industrial growth.

Firm gas sales in 1983 failed to meet the 1982 level, declining 9%. Among the factors which contributed to reduced gas sales were unseasonably warm weather conditions, conversion from gas to lower-priced fuel by some commercial and industrial customers who have dual fuel capabilities and continued conservation efforts by our customers.

FINANCING

On October 20, 1983, the Company sold to the public an additional 400,000 shares of Common Stock at $21.50 per share. Net proceeds from the sale of these shares were applied to the reduction of short-term indebtedness outstanding at the time of the financing. The lead underwriter for the sale was Merrill Lynch Capital Markets.

RATE MATTERS

Recovering the full cost of providing service has been one of our biggest challenges and is necessary in order to provide adequate and reliable service to our customers while earning a reasonable return for our investors.

The Company is, however, aware of the burden it places on our customers and steps have been taken to minimize the need for rate increases.

Gas Rate Increase Granted

On January 31, 1983, FG&E was granted an increase of approximately $2.3 million in its gas rates, or 73% of the revised amount requested. The Company's original request for $3.38 million had been revised to $3.17 million.

Electric Rate Increase Granted

On March 31, 1983, in response to the Company's request for a $4.1 million increase in its electric base rates, which was subsequently revised to $3.96 million, the DPU issued an order granting the Company an increase of $2.14 million, or 54% of the revised amount requested.

The DPU, in determining the amount of rate relief to be granted, allowed FG&E a 16.3% return on Common Stock equity and an overall return on rate base of 13.68%. The need for rate relief was primarily due to continuing increases in the cost of operations and financing the Company's ongoing construction program.

In the electric rate order, the DPU denied recovery for rate-making purposes of certain portions of FG&E's net investments in the abandoned Pilgrim Unit 2 and Montague Units 1 and 2. As a result, FG&E charged against earnings approximately $326,000 of this unrecovered investment in March 1983. The DPU allowed the Company rate relief to amortize the remaining $712,000 investment in those Units over a three-year period.

Purchased Power Adjustment Clause

On February 29, 1984, the DPU denied the Company's request for a Purchased Power Adjustment Clause (PPAC) which would have been applicable to all electric retail sales. The PPAC would have allowed FG&E to recover $420,000 of non-fuel related cost increases imposed by the Company's major supplier of wholesale power, Boston Edison Company. The Company intends to appeal the decision of the DPU to the Supreme Judicial Court of Massachusetts.

CAPITAL REQUIREMENTS

Capital expenditures in 1983, including an allowance for funds used during construction (AFUDC), amounted to $12.3 million for costs associated with the continued investment in jointly-owned nuclear plants and expenditures for transmission, distribution and other general plant facilities.

Capital expenditures for 1984, including AFUDC, are estimated to be $15 million. This amount includes a $12.8 million investment in jointly-owned nuclear plants, with the remainder directed to local construction requirements.

ELECTRIC OPERATIONS

Meeting the Demand

The recent expansion of the existing substation in Townsend is an indication of our commitment to recognize and react to the needs of our customers. This substation was modified and constructed from specifications developed by FG&E, including the installation of a new transformer and associated equipment. Completed in November 1983, the substation is now large enough to satisfy current and anticipated electrical demands of a town that is experiencing steady residential growth.

Securing Hydroelectric Power

In 1983, FG&E took significant additional steps in pursuit of its goal of reducing its dependence on oil for electric generation. On March 31, 1983, officials from the New England Power Pool, of which FG&E is a member, and Quebec Hydro-Electric Corporation signed history-making contracts to bring hydroelectric power from the Province of Quebec to New England starting in 1986. These contracts will become effective if and when all appropriate licensing requirements are met. Based on projected fuel prices and use of electricity, the contracts are expected to save New Englanders more than $100 million in 1987 and nearly $350 million in 1995 and are expected to save the burning of more than 5 million barrels of oil annually. FG&E customers can expect to save approximately $500,000 in 1987 and $1.8 million in 1995

when this project is fully operable.

Currently the Company is receiving low-head hydro capacity from Linweave, Inc. and Massachusetts Hydro Associates, which provided 5% of FG&E's total energy requirements in 1983.

Nuclear Commitments

Energy provided by the Pilgrim nuclear plant in Plymouth, Massachusetts, proved to be an economical and reliable source for FG&E in 1983. The Company also has contractual commitments in the following nuclear power plants currently under construction: Millstone Unit 3 in Waterford, Connecticut, and Seabrook Units 1 and 2 in Seabrook, New Hampshire.

FG&E has a 0.217% ownership interest (2.5 megawatts) in Millstone Unit 3, representing an expected investment of approximately $10.6 million, approximately $6.1 million of which had been invested as of December 31, 1983. Scheduled for commercial operation in May 1986, the $3.54 billion plant is expected to save the Company the burning of about 25,000 barrels of oil each year.

The Seabrook project has experienced considerable delays and produced significant financial concerns in 1983. Findings by an independent consulting firm, Management Analysis Company (MAC), emphasized that Seabrook Unit 2 is particularly vulnerable to future cost escalation.

The continuing uncertainty as to the ultimate cost and in-service date of Unit 2 has led some of the joint owners, including the Company, to question the economic viability of that Unit. On December 29, 1983, FG&E announced that it could no longer support the completion of Unit 2 due to the uncertainty surrounding the actual completion date, the cost of the Unit itself and the ultimate cost of the power from the Unit. The Company does, however, intend to comply with its contractual obligations by making monthly payments for Unit 2's reduced level of construction.

Five other utilities also voiced a desire during 1983 and early 1984 to halt construction of Unit 2. There were also unsuccessful attempts to have the joint owners adopt a resolution calling for the cancellation of that Unit, the most recent of which occurred on March 1, 1984. Public Service Company of New Hampshire (PSNH), the lead participant owning 35.6% of the project, has an effective veto power and has opted not to cancel Unit 2. Thus far, the only action taken toward halting progress of Unit 2 was a resolution proposed and unanimously adopted by the joint owners on September 8, 1983 to reduce work on Unit 2 to the "lowest feasible level" until either fuel-loading commences on Unit 1 or Unit 2 is cancelled. The resolution allows maximum effort to be put towards completing Unit 1 while maintaining the value of Unit 2. Minimizing construction progress on Unit 2 also means temporarily reduced cash requirements for the joint owners during the 1984-1985 period; however, the delayed completion of that Unit would substantially increase its ultimate cost to the Company.

At a meeting of the joint owners on March 1, 1984, PSNH announced that the projected in-service dates for Seabrook Units 1 and 2 are July 1986 and December 1990, respectively, and that the total cost of the project

could be as high as $9 billion. The previous official estimates for the Seabrook project, released in November 1982, set the total cost at $5.24 billion with in-service dates of December 1984 and July 1987 for Units 1 and 2, respectively. These new projections indicate that Units 1 and 2 are approximately 72% and 22% complete, respectively, a change from previous completion estimates of 89% and 29%. PSNH and its newly hired senior construction executive for the Seabrook project will be undertaking a comprehensive review of these new projections in the ensuing months, since PSNH believes the cost projections to be too high because they do not reflect changes that will be implemented by PSNH. At the meeting on March 1, 1984, MAC reported that there is a substantial probability that if significant management and construction changes are not implemented, the above-mentioned cost and completion date projections will not be achieved. MAC did, however, indicate that there are significant opportunities for improvement in the construction of the project. Accordingly, MAC recommended that the joint owners not adopt the new cost and schedule projections as an official estimate pending the further review by PSNH. As a conservative measure, FG&E is using these new projections for financial planning purposes until the further review is completed.

While FG&E strongly supports the expeditious completion of Unit 1, we are convinced that cancellation, rather than delay or slowdown, of Unit 2 is in the best interest of our shareholders and ratepayers. As an active participant in all joint owners' meetings, the Company will continue to scrutinize and assess the entire project.

FG&E has a total interest in Seabrook of 0.865%, which represents an ownership of 9.95 megawatts of capacity in each Unit. The Company had invested approximately $24.6 million in Unit 1 as of December 31, 1983. As of that date, FG&E had invested approximately $7.2 million in Unit 2 which represents an after tax investment of approximately $4.6 million. In the event Unit 2 is cancelled, the Company will pursue the entire recovery of its investment. FG&E cannot predict, however, the extent to which rate relief would be granted by the DPU to allow for such a recovery. Failure to obtain adequate and timely rate relief in the event of cancellation of Seabrook Unit 2, or either of the other two nuclear units in which FG&E has an interest, could have a material adverse impact on the Company's earnings and its ability to pay dividends on its stock.

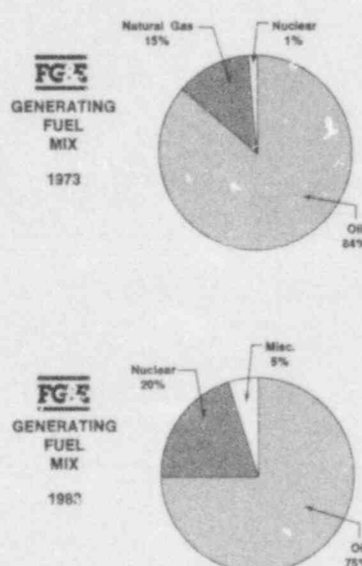
An important step in broadening FG&E's gas supply picture occurred when the Canadian National Energy Board approved one half of the export volumes of gas requested by Boundary Gas, Inc. (Boundary), a corporation formed by fourteen northeastern utilities, including FG&E, for the purpose of importing natural gas from Canada. This action should provide FG&E with an additional baseload supply of 184,000 MCF (thousand cubic feet) of

natural gas annually to meet requirements for high-priority residential and commercial customers. On January 25, 1984, the Federal Energy Regulatory Commission (FERC) approved Phase 1 of the project, allowing four other utilities to receive 80 thousand MCF a day beginning in November 1984, half of which will be imported from Canada. Boundary has reported that this action represents the first significant increment of firm gas supply for the Northeast since the early 1970's. While this does not affect FG&E, the Company can expect to receive delivery of gas in late 1986 or 1987 subsequent to approval of Phase 2. In addition, regulatory hearings relating to the expansion of pipeline facilities necessary to transport the gas, as well as to the resale of the gas by Boundary to its participants, are currently being conducted by the FERC.

Long-range energy planning is essential in providing adequate supplies of gas to meet customers' future demands. In order to accommodate anticipated future growth, the Company, along with eighteen utilities which make up Northeast Gas Markets, Inc., has been engaged in negotiations with the Canadian government and Canadian producers for the annual importation of approximately 49 million MCF of natural gas from Sable Island. Reserves from the area near this small island off the coast of Nova Scotia could provide FG&E with approximately 365 thousand MCF of natural gas annually. The Company expects that, if negotiations are successful and necessary regulatory approvals are granted, the gas will be delivered to its distribution system in the early 1990's.

System Modifications

To better meet those periods of peak demand and to improve the reliability and efficiency of its gas operations, FG&E initiated several modifications to its gas system during 1983. The Company installed a natural gas regulating station in Fitchburg to bolster gas pressure during peak demand in cold winter months. FG&E also completed an inspection and major overhaul of its propane facility in Lunenburg. As part of a preventive maintenance program, the tanks were hydrostatically tested, compressors and manual valves were rebuilt and new excess flow valves were installed.



Minuteman Venture 1 Sold

With additional and more economical gas supplies available to the Company, Fitchburg Energy Development Company (FEDCO), our exploration and development subsidiary, has sold its Minuteman Venture 1 assets to Benatty Corporation of Ohio. Minuteman Exploration Company's holdings included oil and gas leases, wells and surface equipment located in Morgan County, Ohio. FEDCO's remaining exploration investment consists of a portion of one shut-in well in the Black Warrior Basin in Mississippi. The decision as to when to produce gas from this well has not yet been made; however, it is unlikely that gas will be produced before 1985. Any production from this well will be sold rather than delivered to the Company's service territory due to the inability to secure the necessary transportation of this gas.

PROPERTY TAX CLASSIFICATION

In September 1983, the City of Fitchburg established the fiscal 1983 property tax rate after agreeing to a compromise on the tax classification issue. Since the enactment of classification, commercial and industrial property in the City of Fitchburg had been taxed at rate levels 76% and 73% higher than residential property in fiscal years 1981 and 1982, respectively. In both fiscal 1983 and 1984, the tax rate for businesses has been reduced to a level that is 42% higher than the

residential property rate.

The Company will continue to pursue equitable tax treatment in the City of Fitchburg and the other communities we serve.

CONSERVATION

Through counseling, seminars and home energy audits, the Company continued to help and encourage its customers to find ways to use energy more wisely. FG&E energy consultants continued to respond to customer requests for comprehensive home energy audits to help pinpoint conservation measures homeowners could take. The Company also worked with contractors, builders and new industries in an effort to increase standards of thermal efficiency. To complement the energy audit, FG&E recently developed a new energy conservation program primarily designed to assist low-income gas heating customers in maximizing gas conservation through implementation of the most cost effective measures available.

GENERATING STATION SOLD

On June 30, 1983, the Company sold its electric generating station in Fitchburg to Rockware International Corp. This is the last of the seven buildings the Company has sold since moving to its Service Center in February 1981, fulfilling its commitment to keep all former buildings on the City of Fitchburg's tax rolls. FG&E has retained long-term rights to continue to use all facilities presently in operation at its Sawyer Passway location, including its combustion turbine, the gas regulating station, the switch house portion of the electric station, transformers and gas and electric lines.

SUPPLYING ENERGY AND SERVICES

The success of a gas and electric utility depends to a great extent on how effectively its distribution system is designed. Supplying energy safely, reliably and economically is a challenging and complex responsibility. Communicating with our customers and providing them with good service is equally as complex and challenging. Our customers rate the quality of service provided by FG&E quite highly and the Company constantly strives to maintain this reputation. To handle customers' inquiries, and anticipate their needs and concerns, we provide sound training for employees who deal with the public. Our customer service operation is organized so that customers may receive assistance on any matter, from opening an account to reporting a storm outage, by calling a single telephone number. Also, with the availability of a sophisticated computer system, employees can gain instant access to the record of any customer's account.

Addressing Special Needs

Programs which address customers' special needs include a budget payment plan, third party notices, assistance for customers on life-support equipment, special electric rates for qualified senior citizens and winter assistance programs to help needy customers locate the correct agencies to aid in paying energy bills. The Company also introduced in 1983 a new bill design and a 24-page Customer Handbook, tools to help customers gain greater understanding of their local utility and to make wise decisions on their energy purchases. The Company also continues to support an active energy education program, helping educators impart information on energy sources, safety, electricity, conservation and energy economics. The Company's Speakers Bureau also provides a means of telling the energy story to a variety of audiences. To provide more accessible business locations for customers who cannot easily travel to our Customer Service Center, FG&E has nine neighborhood payment centers strategically located throughout its service territory.

THE SENIOR OPERATIONS STAFF
(Left to Right) David K. Foote, Vice President; Frank L. Childs, Executive Vice President; Lawrence T. Gingrow, Jr., Vice President; F. William St. Cyr, Assistant Vice President, Transmission and Distribution; Allen R. Damren, Controller; and Thomas J. Conry, Jr., Assistant Vice President, Communications.

The 147 men and women employed by FG&E take pride in their service to shareholders and customers. By performing efficiently, with skill and creativity, our employees provide reliable service at the lowest cost. To further develop our human resources, the Company provides a broad range of training and development programs aimed at improving individual skills and productivity. All employees are eligible for tuition-assistance benefits to advance their knowledge in job-related areas.

Many employees are actively involved in their communities, working with service organizations, local projects and our Speakers Bureau. Another measure of our employees' concern for the community is their outstanding contribution to the United Way Campaign and the donation of their time to serve as loaned executives.

In an effort to reduce the Company's operating expenses, 37 senior employees were offered a voluntary early retirement program under FG&E's pension plans. Twenty-nine employees accepted the offer — 13 management and 16 union personnel — and retired on September 30, 1983. The retirements allowed the Company to reduce staff by six percent, since not all of the vacated positions were filled, and to reorganize without creating personal hardships.

Howard W. Evirs, Jr. retired as President under FG&E's early retirement program. He continues, however, to serve as a Director of the Company. Edward R. Harriman, Controller and Assistant Vice President, also accepted the early retirement offer.

Frank L. Childs, an employee of FG&E since 1974, was designated Executive Vice President and is responsible for the Company's day-to-day operations. Prior to holding this position, Mr. Childs was a Vice President and Treasurer.

Messrs. Tenney, Childs and Stulgis assumed their new positions October 1, 1983.

Lawrence T. Gingrow, Jr. was elected a Vice President effective January 1, 1984. An employee of the Company since 1979, he was formerly Assistant Vice President of Administration.

PETER J. STULGIS

CHARLES H. TENNEY II

FRANK L. CHILDS

Board Chairman Charles H. Tenney II was elected to the additional office of President of the Company. A Director since 1946, Mr. Tenney has been Chairman and Chief Executive Officer of the Company since 1959.

Peter J. Stulgis was elected a Vice President and Treasurer. Prior to succeeding Mr. Childs in these positions, Mr. Stulgis was Assistant Vice President — Rate Services and Forecasting. He has been employed by the Company since 1979.

Allen R. Damren was appointed Controller, effective December 15, 1983. Mr. Damren joined the Company on December 1, 1983 as Acting Controller.

CONSOLIDATED BALANCE SHEETS

ASSETS	**December 31,**	
	1983	**1982**
Utility Plant (at cost):		
Electric	$31,714,698	$30,829,203
Gas	15,162,443	14,596,942
Common	614,980	681,238
Construction work in progress (Note 10)	38,245,447	27,787,817
Utility Plant	85,737,568	73,895,200
Less: Accumulated depreciation (Note 1)	12,647,667	11,528,924
Net Utility Plant	73,089,901	62,366,276
Miscellaneous Physical Property (at cost)	33,392	26,005
Investments (Note 1)	56,855	116,424
Current Assets:		
Cash (Note 7)	848,352	577,734
Accounts receivable — less allowance for doubtful accounts of $362,842 and $291,337	7,355,184	6,272,604
Refundable income taxes	232,882	654,566
Materials and supplies (at average cost)	989,917	1,209,660
Prepayments	577,485	726,144
Property tax refunds	—	130,320
Total Current Assets	10,003,820	9,571,028
Deferred Debits:		
Unamortized debt expense (amortized over term of securities)	378,353	413,792
Unamortized cost of abandoned properties (Note 2)	1,480,946	950,251
Other (Note 2)	744,733	2,067,165
Total Deferred Debits	2,604,032	3,431,208
TOTAL	$85,788,000	$75,510,941

(The accompanying notes are an integral part of these statements)

LIABILITIES

	December 31, 1983	December 31, 1982
Capitalization:		
Common Stock Equity (Notes 3 and 4):		
Common Stock, $10 par value		
Authorized — 2,000,000 shares		
Outstanding — 1,290,064 and 860,832 shares	$12,900,640	$ 8,608,320
Premium on common stock	10,619,842	5,725,616
Capital stock expense	(2,008,401)	(1,463,361)
Retained earnings	6,535,564	6,744,686
Total Common Stock Equity	28,047,645	19,615,261
Redeemable Preferred Stock (Note 5):		
Cumulative preferred stock, $100 par value		
Authorized — 99,820 shares		
5⅛% Series		
Outstanding — 14,780 and 15,200 shares	1,478,000	1,520,000
8% Series		
Outstanding — 21,250 and 22,000 shares	2,125,000	2,200,000
Cumulative preferred stock, $1 par value		
Authorized — 1,000,000 shares		
$4.00 Series		
Outstanding — 180,000 shares	180,000	180,000
Premium on preferred stock	4,320,000	4,320,000
Total Redeemable Preferred Stock	8,103,000	8,220,000
Long-term Debt (Note 6)	22,416,000	25,786,000
Total Capitalization	58,566,645	53,621,261
Current Liabilities:		
Long-term debt due within one year	3,291,000	323,000
Notes payable (Note 7)	6,700,000	5,700,000
Accounts payable	6,134,100	6,297,682
Customer deposits and refunds	471,279	529,779
Taxes accrued	408,946	54,221
Interest accrued	1,076,208	1,032,598
Total Current Liabilities	18,081,533	13,937,280
Deferred Credits:		
Unamortized investment tax credit (Note 1)	4,089,150	3,661,605
Other	97,665	99,302
Total Deferred Credits	4,186,815	3,760,907
Deferred Income Taxes (Notes 1 and 8)	4,858,409	4,109,779
Reserves — Other	94,598	81,714
Commitments (Note 10)		
TOTAL	$85,788,000	$75,510,941

(The accompanying notes are an integral part of these statements)

CONSOLIDATED STATEMENTS OF EARNINGS

	Years Ended December 31,		
	1983	1982	1981
Operating Revenues (Notes 1 and 9):			
Electric	$29,119,262	$28,193,890	$31,554,691
Gas	19,757,977	18,289,210	16,583,322
Total Operating Revenues	48,877,239	46,483,100	48,138,013
Operating Expenses:			
Operating expenses, other	7,607,616	7,101,172	6,766,170
Electricity purchased for resale	13,076,317	13,516,572	14,466,161
Fuel used in electric generation	5,154,998	4,731,089	6,242,038
Gas purchased for resale	14,215,765	13,346,471	11,174,231
Maintenance	1,379,097	1,305,100	1,093,543
Depreciation (Note 1)	1,500,012	1,365,440	1,392,754
Amortization of cost of abandoned properties (Note 2)	171,981	693,949	766,325
Provisions for taxes (Notes 1 and 8):			
Federal income tax on net operating income	(164,358)	(597,375)	(124,849)
Deferred Federal income	1,225,211	355,260	833,457
Amortization of investment tax credit	(102,716)	(94,029)	(97,776)
State franchise	—	—	2,220
Deferred state franchise	67,488	28,717	(25,652)
Local property — current	950,099	1,484,069	1,673,265
— abatement of prior years	—	—	(257,807)
Other	268,241	256,550	218,778
Total Operating Expenses	45,349,751	43,492,985	44,122,858
Operating Income	3,527,488	2,990,115	4,015,155
Non-operating Income:			
Allowance for other funds used during construction (Note 1)	1,845,261	849,206	355,992
Other (net of income taxes) (Note 8)	68,152	67,788	117,417
Total Non-operating Income	1,913,413	916,994	473,409
Gross Income	5,440,901	3,907,109	4,488,564
Interest and Other Expenses:			
Interest on long-term debt	3,055,582	2,524,446	2,249,374
Other interest charges	935,203	1,449,965	1,489,848
Amortization of debt expense	36,582	35,238	26,178
Write-off of investment in abandoned properties (Note 2)	326,401	—	—
Discount on long-term debt purchased for sinking fund	(15,568)	(26,280)	(19,720)
Other	2,008	3,040	2,812
Gross Interest and Other Expenses	4,340,208	3,986,409	3,748,492
Allowance for borrowed funds used during construction (Note 1)	(2,187,552)	(2,069,505)	(1,850,287)
Net Interest and Other Expenses	2,152,656	1,916,904	1,898,205
Net Income	3,288,245	1,990,205	2,590,359
Dividend Requirements on Preferred Stock	969,824	549,497	265,449
Net Income Applicable to Common Stock	$ 2,318,421	$ 1,440,708	$ 2,324,910
Average Number of Common Shares Outstanding	954,087	773,440	624,574
Earnings per Average Common Share Outstanding	$2.43	$1.86	$3.72

(The accompanying notes are an integral part of these statements)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Years Ended December 31,		
	1983	1982	1981
Funds Provided By:			
Funds from Operations			
Net Income	$ 3,288,245	$ 1,990,205	$ 2,590,359
Principal Non-Cash Charges (Credits) to Earnings			
Depreciation	1,516,449	1,382,034	1,407,588
Deferred Federal income tax	1,225,211	576,210	688,634
Deferred state franchise tax	67,488	(13,845)	8,886
Amortization of investment tax credit	(102,716)	(94,029)	(97,776)
Allowance for other and borrowed funds used during construction	(4,032,813)	(2,918,711)	(2,206,279)
Property tax abatements	—	—	(141,187)
Amortization of deferred debits	436,313	834,908	839,833
Funds Provided by Operations	2,398,177	1,756,772	3,090,058
Sale of (Investment in) Non-utility Operations	59,569	(80,869)	(1,204)
Net Proceeds from Issuance of Long-term Debt	—	4,910,376	—
Net Proceeds from Sale of Common Stock	8,645,321	2,863,328	2,140,450
Net Proceeds from Sale of Preferred Stock	—	4,141,309	—
Increase (Decrease) in Short-term Debt	1,000,000	(4,600,000)	8,600,000
Total Funds Provided	$12,103,067	$ 8,990,916	$13,829,304
Funds Applied To:			
Additions to Plant	$ 8,320,207	$ 7,652,010	$ 4,118,145
Purchase of Additional Interest in Seabrook Units	—	503,290	9,026,657
Common Stock Dividends	2,527,543	1,995,105	1,616,986
Preferred Stock Dividends	969,824	490,176	266,129
Funds Used for Retirement of Securities:			
Long-term Debt	402,000	396,000	191,000
Preferred Stock	117,000	117,000	117,000
Increase (Decrease) in Working Capital, Excluding Short-term Debt	256,539	(2,604,861)	(341,996)
Other Applications (Sources) — Net	(490,046)	442,196	(1,164,617)
Total Funds Applied	$12,103,067	$ 8,990,916	$13,829,304
Increase (Decrease) in Components of Working Capital, Excluding Short-term Debt			
Cash	$ [illegible],618	$(1,281,611)	$ 762,353
Accounts receivable — net	1,[illegible]2,580	(667,193)	(1,516,324)
Refundable income taxes	(421,684)	(333,687)	590,617
Materials and supplies	(219,743)	(370,627)	750,541
Prepayments	(148,659)	29,7[illegible]7	307,265
Property tax refunds	(130,320)	13,700	(437,981)
Accounts payable	163,582	(14,920)	(861,403)
Customer deposits and refunds	58,500	46,173	(44,890)
Taxes accrued	(354,725)	46,238	3,183
Deferred income taxes	—	191,692	297,150
Interest accrued	(43,610)	(264,373)	(192,507)
Increase (Decrease) in Working Capital	$ 256,53[illegible]	$(2,604,861)	$ (341,996)

(The accompanying notes are an integral part of these statements)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Years Ended December 31,		
	1983	1982	1981
Retained Earnings, Beginning of Year	$ 6,744,686	$7,239,762	$6,532,518
Net Income	3,288,245	1,990,205	2,590,359
Total	10,032,931	9,229,967	9,122,877
Deduct:			
Cash dividends declared:			
Cumulative preferred stock:			
5⅛% Series at an annual rate of $5.125 per share	76,824	78,976	81,129
8% Series at an annual rate of $8.00 per share	173,000	179,000	185,000
$4.00 Series at an annual rate of $4.00 per share	720,000	232,200	—
Common stock at an annual rate of $2.60 per share	2,527,543	1,995,105	1,616,986
Total Deductions	3,497,367	2,485,281	1,883,115
Retained Earnings, End of Year (Note 4)	$ 6,535,564	$6,744,686	$7,239,762

(The accompanying notes are an integral part of these statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies — The Company is subject to regulation by the Massachusetts Department of Public Utilities (DPU) with respect to its rates and accounting. The Company's accounting policies conform with generally accepted accounting principles, as applied in the case of regulated public utilities, and are in accordance with the accounting requirements of the DPU. A description of the Company's significant accounting policies follows.

Principles of Consolidation — On February 24, 1978, the Company invested $20,000 in the common stock of a wholly-owned subsidiary, Fitchburg Energy Development Company (FEDCO). FEDCO has invested in oil and gas drilling projects, which investments have been recorded on the equity method. All inter-company items have been eliminated in consolidation.

Revenue Recognition — The Company records unbilled fuel adjustment revenue currently to properly match revenues with related costs. Such unbilled revenue aggregated $483,428, $434,771 and $1,295,425 at December 31, 1983, 1982 and 1981, respectively.

Depreciation — Annual provisions 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: 1983 — 3.31%, 1982 — 3.12% and 1981 — 3.24%.

Accounting for Income Taxes — For income tax purposes the Company excludes a portion of unbilled fuel adjustment revenue and accordingly provides deferred income taxes payable in the succeeding year on such revenue which is carried as a current asset.

As required in the electric rate order effective April 1, 1983, the Company provides deferred income taxes to fully normalize the tax benefits associated with the debt component of allowance for funds used during construction (AFUDC) described below. Prior to the effective date of this order, the Company provided deferred income taxes on a portion of such benefits as required in a previous order.

The Company has implemented the Accelerated Cost Recovery System method of tax depreciation for all property additions subsequent to December 31, 1980, and uses an accelerated method of tax depreciation for substantially all property additions prior to January 1, 1981, which results in tax depreciation amounts in excess of book depreciation. The Company further deducts currently certain

Note 1: Summary of Significant Accounting Policies — (Continued)

elements of construction overheads that are capitalized for book purposes. For each of these differences, the Company provides deferred income taxes as had been previously approved for rate-making purposes by the DPU. The Company received a DPU order dated July 2, 1982 reaffirming the principle of full tax normalization as required by the Economic Recovery Tax Act of 1981.

The Company has recorded deferred income taxes related to certain abandoned properties which are recognized as tax losses at differing times. The Company, in 1979, began capitalizing certain maintenance costs for a generating unit, yet continued to deduct these costs currently for tax purposes. Deferred income taxes have been provided for this timing difference.

The annual investment tax credits permitted for additions to the Company's utility property are being amortized to income ratably over the estimated productive lives of the related assets as allowed by the DPU. Such deferrals for the years 1983, 1982 and 1981 amounted to $568,927, $769,780 and $1,255,899, respectively.

During the years 1980-1982 the additional investment tax credit permitted under the Company's Employee Stock Ownership Plan (ESOP) was available to reduce Federal income taxes payable by 1½% of the Company's qualified property additions. The amounts realized from the reduction in income tax liability were paid to ESOP.

Allowance for Funds Used During Construction — AFUDC, a non-cash item reflected in the consolidated statements of earnings, is included in construction work in progress. The objective of AFUDC is to present the earnings that would result in the absence of construction programs and the related financing requirements during the period of construction. Accordingly, AFUDC capitalizes the cost of debt and equity employed in meeting these financing requirements based upon a composite rate applied to construction work in progress which assumes that funds used for construction were provided by borrowings, preferred stock and common equity. AFUDC is anticipated to be recovered in rates through depreciation charges over the lives of the related assets.

The combined rates used in calculating AFUDC were approximately 13%, 13% and 16% for the years ended December 31, 1983, 1982 and 1981, respectively. AFUDC amounted to approximately 174%, 203% and 95% of net income applicable to Common Stock for the years ended December 31, 1983, 1982 and 1981, respectively. The equity components of AFUDC equaled approximately 80%, 59% and 15% of net income applicable to Common Stock for the years ended December 31, 1983, 1982 and 1981, respectively.

Note 2: Deferred Debits

Unamortized Cost of Abandoned Properties — The unamortized cost of abandoned properties is being amortized at various rates as ordered by the DPU:

On October 18, 1978, the Company filed with the DPU its proposed accounting treatment relative to the book abandonment ordered by the DPU of the Company's oil-fired generating Unit No. 6, which treatment was approved by the DPU on November 7, 1978. As a result, the Company commenced amortization of this property in September 1978, retroactive to January 21, 1978. This amortization was completed in November 1982. In September 1981, the Company abandoned the Unit for tax purposes pursuant to management's determination that there was no longer economic justification for retaining the Unit as standby capacity available for future rehabilitation. The tax abandonment had no effect on earnings.

On November 1, 1979, the Company began amortizing the costs of its abandoned investment in the proposed Charlestown Units No. 1 and No. 2 nuclear generating plants. This abandonment was precipitated by the announcement on October 9, 1979 by the lead participant, New England Electric System, of its decision to defer indefinitely the in-service dates and the subsequently announced termination of this project. On November 27, 1979, the DPU approved the Company's request to amortize approximately $653,000 over a three-year period. The amortization was completed in October 1982.

Note 2: Deferred Debits — (Continued)

On December 31, 1980, Northeast Utilities, the parent company of the lead participant in the proposed Montague Units No. 1 and No. 2 nuclear generating plants, announced the termination of construction of these Units. On April 24, 1981, the Company received permission from the DPU to amortize approximately $294,000 of related costs over a five-year period beginning January 1, 1981. On September 16, 1982, the Company requested in its electric rate filing the recovery of its remaining net investment in these Units, amounting to approximately $175,000. In the electric rate order which was received on March 31, 1983, the DPU allowed the recovery of the net investment over a three-year period after excluding the equity component of AFUDC, amounting to approximately $21,000, which was written off in March 1983.

On September 23, 1981, the Board of Directors of Boston Edison Company voted to cancel Pilgrim Unit No. 2 due to increased costs resulting from regulatory delays. On October 22, 1981, the Unit was officially cancelled. The Company had requested in the above-mentioned 1982 electric rate filing the recovery of its investment in Pilgrim Unit No. 2, net of deferred taxes related thereto. In the March 1983 electric rate order, the DPU allowed the recovery over a three-year period of all costs associated with the Unit incurred prior to July 1, 1980, amounting to approximately $537,000. However, approximately $56,000 of costs related to the equity component of AFUDC were not includable for recovery purposes. All non-recoverable costs, approximating $305,000, were written off in March 1983.

The amounts to be amortized for all properties over the next five years are as follows: 1984 — $435,076; 1985 — $360,709; 1986 — $134,070; 1987 — $58,522; 1988 — $58,522.

Other Deferred Debits — Other deferred debits are composed of the following:

	December 31,	
	1983	**1982**
Pilgrim Unit No. 2	*	$1,210,650
Storm damage	$ 4,969	64,594
Property tax abatements receivable	129,626	129,626
Notes receivable	106,065	127,171
Deferred maintenance costs (amortized based upon generation)	169,213	171,841
Moving expenses	5,079	35,553
Turbine maintenance expense	91,063	122,216
Rate case expenses	233,712	158,757
Miscellaneous	5,006	46,757
Total other deferred debits	$744,733	$2,067,165

* Pursuant to the electric rate order effective April 1, 1983, the recoverable investment in Pilgrim Unit No. 2 has been reclassified as unamortized cost of abandoned property and the unrecoverable portion of the investment in this Unit was written off in March 1983.

Note 3: Common Stock — On October 20, 1983, the Company sold 400,000 shares of Common Stock to the public at $21.50 per share. At various times during 1983, the Company sold 29,232 shares of Common Stock in connection with ESOP and its Dividend Reinvestment and Stock Purchase Plan (DRP) at an average price of $20.21 per share. Aggregate net proceeds of $8,645,324 were used to reduce short-term borrowings incurred in connection with the Company's on-going construction program.

On June 24, 1982, the Company sold 150,000 shares of Common Stock to the public at $18.50 per share. At various times during 1982, the Company sold 23,123 shares of Common Stock in connection with ESOP and DRP at an average price of $18.66 per share. Aggregate net proceeds of approximately $2,863,000 were used to reduce short-term borrowings incurred in connection with the Company's on-going construction program.

On June 23, 1981, the Company sold 125,000 shares of Common Stock to the public at $19 per share. The Company sold an additional 4,232 shares of Common Stock at $18 per share to ESOP on October

Note 3: Common Stock — (Continued)

22, 1981. Aggregate net proceeds of $2,140,000 were used to reduce short-term borrowings incurred in connection with the Company's on-going construction program.

Note 4: Restriction on Retained Earnings — Under the most restrictive provisions of indentures and note purchase agreements relating to the Company's long-term debt, $2,529,278, $2,746,807 and $3,256,074 of retained earnings were available for the payment of cash dividends on Common Stock at December 31, 1983, 1982 and 1981, respectively.

Note 5: Redeemable Cumulative Preferred Stock — On August 5, 1982, the Company sold to the public 180,000 shares of an initial series of Cumulative Preferred Stock, $1 par value, at $25 per share with an annual dividend rate of $4.00 per share. Net proceeds of $4,141,309 were used to reduce short-term borrowings incurred in connection with the Company's on-going construction program.

Both classes of Cumulative Preferred Stock rank equally and are preferred over Common Stock in voluntary liquidation at the redemption price in effect at the time of such voluntary liquidation and in involuntary liquidation at $100 per share with respect to the 5⅛% and 8% Series and at $25 per share with respect to the $4.00 Series, all plus accrued dividends.

Shares of the 5⅛% Series are redeemable at the Company's option at $101.28 per share. The Company is required to purchase on June 1 of each year not less than 420 shares of the 5⅛% Series, unless a lesser amount of shares is tendered, at $100 per share plus accrued dividends.

Shares of the 8% Series are redeemable at the Company's option at $104.00 per share on or before August 31, 1986 and at diminishing premiums thereafter. The Company is required to purchase on June 1 of each year not less than 750 shares of the 8% Series, unless a lesser amount of shares is tendered, at $100 per share plus accrued dividends.

Shares of the $4.00 Series are redeemable at the Company's option at $29.00 per share on or before June 1, 1987 and at diminishing premiums thereafter. The Company is required to purchase on June 1 of each year, commencing in 1988, 9,000 shares of the $4.00 Series at $25 per share plus accrued dividends.

Purchases of redeemable Cumulative Preferred Stock during 1983, 1982 and 1981 consisted of the following:

Series	1983	1982	1981
5⅛%	$42,000	$42,000	$42,000
8%	$75,000	$75,000	$75,000

The aggregate amount of sinking fund requirements of the redeemable Cumulative Preferred Stock for each of the five years following 1983 are: 1984-1987 — $117,000; and 1988 — $342,000.

Note 6: Long-term Debt — Details of Long-term Debt at December 31, 1983 and 1982 are shown below:

	December 31,	
	1983	1982
Twenty-five year Notes, 4⅞%, due February 1, 1984	$ 3,011,000	$ 3,054,000
Ten year Notes, 17¼%, due August 15, 1992	5,000,000	5,000,000
Twenty-five year Notes, 9⅜%, due March 1, 1995	6,596,000	6,675,000
Twenty year Notes, 10%, due September 1, 1996	2,600,000	2,800,000
Twenty-five year Notes, 10¼%, due May 1, 1999	3,500,000	3,580,000
Twenty year Notes, 15¾%, due September 1, 2000	5,000,000	5,000,000
Total	$25,707,000	$26,109,000
Less: Installments due within one year	3,291,000	323,000
Total Long-term Debt	$22,416,000	$25,786,000

Note 6: Long-term Debt — (Continued)

The aggregate amount of sinking fund requirements and payments at maturity for each of the five years following 1983 are: 1984 — $3,291,000; 1985 — $351,000; 1986-1988 — $685,000. The Company has satisfied through advance purchases $75,000 and $4,000 of the annual sinking fund requirements for 1984 and 1985, respectively.

Note 7: Credit Arrangements — Under line of credit arrangements for short-term debt with four banks, the Company may borrow up to $14,000,000 on such terms as the Company and the banks may mutually agree upon.

These arrangements do not have termination dates, but are reviewed annually for renewal. At December 31, 1983 and 1982, the unused portion of the credit lines outstanding was $7,300,000 and $9,300,000, respectively. The Company has agreed to pay certain fees in lieu of compensating balances and was not required to maintain compensating balances at December 31, 1983. Compensating balance requirements at December 31, 1982 were approximately $80,000.

Note 8: Federal Income Tax — Federal income tax expense is comprised of the following components:

	Years Ended December 31,		
	1983	**1982**	**1981**
Current expense charged (credited):			
Operating expenses	$ (164,358)	$(597,375)	$(124,849)
Non-operating income	(276)	(63,834)	(24,530)
Amortization of investment tax credit	(102,716)	(94,029)	(97,776)
	(267,350)	(755,238)	(247,155)
Deferred tax expense charged (credited):			
Deferred unbilled revenue	23,856	(162,653)	(276,917)
Accelerated tax depreciation	284,638	325,577	322,551
Abandoned properties	(108,324)	(174,814)	650,300
Allowance for funds used during construction (Note 1)	758,754	63,231	66,023
Overheads and other	235,951	259,075	84,040
Deferred maintenance costs	(15,479)	54,949	(2,494)
Percentage repair allowance	45,815	(10,105)	(10,046)
	1,225,211	355,260	833,457
Non-operating expense	—	(42,983)	(19,951)
	1,225,211	312,277	813,506
Total Expense (Benefit)	$ 957,861	$(442,961)	$ 566,351

The Federal income tax amounts included in the Consolidated Statement of Earnings differ from the amounts which result from applying the statutory Federal income tax rate to Net Earnings before income tax. The reasons, with related percentage effects, are as shown below:

	Years Ended December 31,		
	1983	**1982**	**1981**
Statutory Federal income tax rate	46 %	46 %	46 %
Income tax effects of timing differences:			
Allowance for funds used during construction (see Note 1)	(25)	(82)	(30)
Miscellaneous	1	7	2
Effective Federal income tax rate	22 %	(29)%	18 %

Note 9: Regulatory Matters — On January 31, 1983, the Company was granted in a DPU order an increase in gas base rates of approximately $2,318,000 on an annual basis, which amounted to 73% of the revised amount requested. The Company had originally filed for a $3,378,000 increase on July 16, 1982. This request was revised to approximately $3,173,000.

Note 9: Regulatory Matters — (Continued)

On March 14, 1983, the Attorney General of The Commonwealth of Massachusetts (Attorney General) appealed to the Massachusetts Supreme Judicial Court (SJC) certain issues contained in the DPU's above-mentioned gas rate order. The capital structure utilized in determining the overall cost of capital and the allowed return on common equity by the DPU are the issues being challenged by the Attorney General. Arguments were to be held before the SJC on February 9, 1984 and a decision is expected before the end of the year. While the Company has actively defended the DPU's findings, the ultimate outcome is uncertain and the Company is unable to determine the potential adverse impact of any decision by the SJC on future earnings.

On March 31, 1983, in response to the Company's request for an increase in electric rates of approximately $4,103,000 on an annual basis, subsequently revised to approximately $3,959,000 on an annual basis, the DPU issued an order granting the Company an increase of approximately $2,139,000 on an annual basis, or 54% of the revised amount requested. In this electric rate order, the DPU denied recovery for rate-making purposes of certain portions of the Company's net investment in the abandoned Pilgrim Unit No. 2 and Montague Units No. 1 and No. 2, and the Company, therefore, charged against earnings approximately $326,000, net of related taxes, of these unrecoverable investments in March 1983. The DPU allowed the Company electric rate relief to amortize the remaining investment in these Units over a three-year period, commencing on April 1, 1983.

Note 10: Commitments

Lease Obligations — In accordance with the guidelines of Statement of Financial Accounting Standards No. 13 issued by the Financial Accounting Standards Board, the Company is disclosing pertinent information regarding its capital leases. The Securities and Exchange Commission requires, for rate-regulated enterprises, disclosure of the effect on the balance sheet and on expenses if such leases had been capitalized.

The Company has a twenty-five year lease which began April 1, 1973 for a combustion turbine and a liquefied natural gas storage and vaporization facility. The lease is subject to a ten-year renewal period at the option of the Company at an annual rental of 14½% of the aggregate fair market value at the end of the initial lease term. Under certain conditions the Company has the right to purchase these facilities at an independently appraised market value. Under the lease, the Company has the obligation to maintain the equipment in good operating condition and pay all taxes and insurance thereon.

The Company leases its service center in Fitchburg under a sale and leaseback arrangement. The twenty-two year primary term of the lease began in February 1981 with annual rental payments increasing over the initial term of the lease from approximately $184,000 to $537,000. The lease is subject to five five-year renewal periods at the option of the Company at an annual rent of $270,000. The Company has the option to purchase the service center on the last day of the primary term or any extended term at a price equal to its fair market value. The Company has a right of first refusal to purchase the service center during the term of the lease if a bona fide offer is made to the lessor. Should the service center be purchased by another party, this right expires after the transfer of ownership resulting from this offer. The lease requires that the Company maintain the service center and pay all taxes and insurance thereon.

Had the Company capitalized its capital leases at December 31, 1983 and 1982, the asset and related liability which would have been recorded on the balance sheets for the Company's capital leases would have been as follows:

	December 31,	
	1983	1982
Asset	$4,561,875	$4,731,232
Liability	$5,700,339	$5,807,364

Note 10: Commitments — (Continued)

Had the Company capitalized its capital leases, depreciation and other interest charges would have increased and operating expenses, other, would have (decreased) as follows:

	Years Ended December 31,		
	1983	**1982**	**1981**
Depreciation	$ 305,103	$ 288,133	$ 265,996
Other Interest Charges	$ 698,001	$ 694,413	$ 578,755
Operating Expenses, Other	$(876,079)	$(617,965)	$(544,844)

The minimum commitments under all non-cancellable long-term leases in effect at December 31, 1983 are as follows:

1984	$ 926,051
1985	910,211
1986	884,810
1987	871,855
1988	810,775
1989 - 1993	3,510,033
1994 - 1998	3,643,421
1999 - 2003	2,193,799
	$13,750,955

Total rental expense for the years ended December 31, 1983, 1982 and 1981 amounted to $956,850, $687,142 and $583,810, respectively.

Pension Plans — The Company has in effect two funded pension plans and related Trust Agreements to provide retirement annuities for participating employees at age 65. The entire amount of the annual contribution under the actuarial requirements of the plans is borne by the Company. The Company's contribution to the plans during the years ended December 31, 1983, 1982 and 1981 amounted to $579,283, $552,824 and $564,661, respectively. The Company's policy is to fund the pension cost accrued which includes amortization of prior service costs over a period of thirty years. The following additional information is presented as of the most recent benefit information dates:

	January 1,	
	1983	**1982**
Actuarial present value of accumulated plan benefits:		
Vested	$4,658,878	$4,459,203
Non-Vested	51,097	75,520
	$4,709,975	$4,534,723
Net asset available for benefits	$2,950,355	$2,183,048

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8% for both 1983 and 1982.

Joint Ownership Units and Construction — The Company is participating on a tenancy-in-common basis with other New England utilities in the construction and ownership of five generating Units. New Haven Harbor and Wyman Unit No. 4, both oil-fired stations, have been in commercial operation since August 1975 and December 1978, respectively. The remaining three nuclear Units are under construction.

The Company estimates that construction requirements, including AFUDC relating to these five Units, will be approximately $51,295,000 during the five-year period ending December 31, 1988.

Note 10: Commitments — (Continued)

On January 26, 1979, the common shareholders approved the acquisition of an additional 0.43332% ownership interest in each of the Seabrook Units from The Connecticut Light and Power Company (CL&P). On March 25, 1980, the common shareholders approved the acquisition of an additional 0.26087% ownership in each of the Seabrook Units from Public Service Company of New Hampshire (PSNH). The purchase of both additional interests, representing an additional 16 MW, was approved by the DPU on October 31, 1980 and is included in the information presented below. The purchase from CL&P increasing the Company's ownership interest in the Seabrook Units was consummated on January 30, 1981. The purchase from PSNH increasing the Company's ownership interest in the Seabrook Units was phased in over the thirteen-month period, February 1981 through February 1982.

Details with respect to the various Units are set forth in the table below. Estimates issued by PSNH on March 1, 1984 reflect an increase in the estimated cost of construction and the deferral of projected in-service dates to July 1986 and December 1990 for Units No. 1 and No. 2, respectively. These estimates also reflect the participants' unanimous resolution to reduce expenditures for Unit No. 2 to the lowest feasible level until the time of fuel-loading for Unit No. 1, unless Unit No. 2 is cancelled prior to that event.

		Proportionate Share of Total Ownership		Company's Share in Thousands of Dollars			
Joint Ownership Units	**State**	**%**	**MW**	**Amount of Utility Plant in Service**	**Accumulated Depreciation**	**Amount Expended through 12/31/83**	**Total Estimated Cost of Construction**
Seabrook Unit No. 1	New Hampshire	0.86519	9.95	$ —	$ —	$24,611	$ 48,875
Seabrook Unit No. 2	New Hampshire	0.86519	9.95	—	—	7,179	46,055
Millstone Unit No. 3	Connecticut	0.217	2.50	—	—	6,091	10,579
Wyman Unit No. 4	Maine	0.1822	1.13	413	75	—	—
New Haven Harbor	Connecticut	4.5	20.12	6,972	1,757	—	—
			43.65	$7,385	$1,832	$37,881	$105,509

Estimates of the total cost of construction are presented as of March 1, 1984 and are based on the most recent information furnished by the utilities supervising construction of the nuclear Units and various other assumptions made by management of the Company regarding sources of financing and costs of capital. The Company has been advised by the supervising participant for each project that construction budgets are periodically updated in light of changes in costs due to deferrals, delays and other factors. In February 1984, the Company received revised estimated costs of construction from Northeast Utilities, the parent company of the lead participant in Millstone Unit No. 3, with respect to such Unit.

The continuing uncertainty as to the ultimate cost and in-service date of Unit No. 2 have led some of the joint owners, including the Company, to question the economic viability of the Unit. On December 29, 1983, the Company announced that it could no longer support the completion of Unit No. 2 due to the uncertainty surrounding the actual completion date, the cost of the Unit itself and the ultimate cost of the power to be generated by that Unit. The Company does, however, intend to continue to comply with its contractual obligations by making monthly payments for Unit No. 2's reduced level of construction.

The complexity of present-day electric utility technology and the time required for the construction of generating facilities and completion of licensing and other regulatory proceedings relating thereto have compelled the Company, as well as other electric utilities, to make substantial investments in nuclear facilities prior to the completion of licensing and regulatory proceedings. Cancellation of any of the three nuclear generating Units for any reason, including the inability to obtain necessary permits or sufficient financing, could result in substantial and possibly unrecoverable charges against the Company's income. These charges could include the amounts incurred by the Company prior to cancellation, cancellation penalties and other charges. The scheduling of Millstone Unit No. 3, and the right to cancel that Unit, are solely the responsibility of the utility which is supervising construction of that Unit. A delay or cancellation of either of the Seabrook Units would require the agreement of 75% of the participating

Note 10: Commitments — (Continued)

ownership interests of the utilities involved in the construction of those Units. PSNH has a 35.6% ownership interest in each Unit and accordingly has, effectively, a veto power over any such proposed action.

In the event that any Unit identified in the table above is cancelled, the Company would request DPU permission to amortize its gross expenditures relating to such cancelled Unit over a suitable period to be accompanied by a return on the unamortized balance during the amortization period, which would thereby achieve, in the opinion of the management of the Company, adequate rate treatment. The Company cannot determine at this time the magnitude of the final costs which would be incurred by the Company in the event that any of the Units identified in the table above is cancelled, or the extent to which rate relief would permit a return on and/or recovery of these costs. Failure to obtain adequate and timely rate relief in such circumstances could have a material adverse impact on the Company's earnings and its ability to pay dividends on its stock.

The Company expects to finance the cost of its participation in the Units initially through short-term borrowings. At the appropriate times, short-term borrowings are expected to be refunded with the proceeds from the sale of long-term debt and equity.

Operating expenses of the joint ownership units included in the consolidated statements of earnings and proportionate amounts charged to specific operating expenses are as follows:

	Wyman Unit No. 4	New Haven Harbor	Percentage of Total Electric Expense Category
	(In thousands of dollars)		
Operating Expense, Other	$ 23	$ 374	9%
Fuel Used in Electric Generation	126	4,880	97
Maintenance	4	223	24
Local Property Tax	5	209	29
Other Taxes	—	12	8
Total Operating Expenses	$158	$5,698	

Long-term Obligations — The Company maintains contracts for both natural and supplemental gas supplies and the storage and delivery of natural gas stored underground. These contracts contain minimum purchase provisions which the Company is obligated to pay. The minimum purchase provisions of the natural gas contracts may increase or decrease on action by the Federal Energy Regulatory Commission with regard to curtailment of supply. All of the supplemental supply contracts contain a minimum purchase provision subject to product availability from the supplier.

The minimum commitments under all non-cancellable contracts in effect at December 31, 1983 are as follows: 1984 — $9,786,144; 1985 — $9,154,210; 1986 — $8,948,160; 1987 — $9,821,851; 1988 — $8,531,051; 1989-1993 — $40,509,255 aggregate for the period; 1994-1998 — $38,039,339 aggregate for the period; 1999-2000 — $12,977,428 aggregate for the period.

The Company has entered into agreements with other New England utilities to support the operation of a terminal facility and transmission line which are planned to permit the interchange of electricity between such utilities and Quebec Hydro-Electric Corporation. Related support charges, which will commence in 1986, are expected to cost the Company approximately $200,000 per year.

The Company has contracts for purchases of electric energy with unconditional capacity and transmission charges which approximate $6,100,000 annually through October 1986, then $1,300,000 annually through 1992.

A substantial portion of the Company's electric energy supply is obtained under long-term contracts.

Note 11: Segment Information — In accordance with Financial Accounting Standard No. 14, the following information is presented relative to the gas and electric operations of the Company:

	Electric Operations		
	1983	**1982**	**1981**
Operating revenues	$29,119,262	$28,193,890	$31,554,691
Operating income before income taxes	$ 3,010,161	$ 1,650,425	$ 2,950,982
Identifiable assets as at December 31	$61,493,038	$53,132,693	$45,101,618
Depreciation	$ 966,008	$ 979,783	$ 980,737
Construction expenditures	$ 7,506,987	$ 6,963,559	$12,623,393

	Gas Operations		
	1983	**1982**	**1981**
Operating revenues	$19,757,977	$18,289,210	$16,583,322
Operating income before income taxes	$ 1,542,952	$ 1,032,263	$ 1,651,573
Identifiable assets as at December 31	$13,622,946	$13,804,033	$14,229,005
Depreciation	$ 534,004	$ 385,657	$ 412,017
Construction expenditures	$ 813,220	$ 1,191,741	$ 521,409

	Total Company		
	1983	**1982**	**1981**
Operating revenues	$48,877,239	$46,483,100	$48,138,013
Operating income before income taxes	$ 4,553,113	$ 2,682,688	$ 4,602,555
Income tax benefit (expense)	(1,025,625)	307,427	(587,400)
Non-operating income	1,913,413	916,994	473,409
Net interest and other expenses	(2,152,656)	(1,916,904)	(1,898,205)
Net income	$ 3,288,245	$ 1,990,205	$ 2,590,359
Identifiable assets as at December 31	$75,115,984	$66,936,726	$59,330,623
Unallocated assets, primarily working capital	10,672,016	8,574,215	9,728,638
Total assets as of December 31	$85,788,000	$75,510,941	$69,059,261
Depreciation	$ 1,500,012	$ 1,365,440	$ 1,392,754
Construction expenditures	$ 8,320,207	$ 8,155,300	$13,144,802

Expenses used to determine operating income before taxes are charged directly to either segment or are allocated in accordance with factors contained in cost of service studies which were included in rate applications approved by the DPU. Assets allocated to each segment are based upon specific identification of such assets provided by Company records. Assets not so identified represent primarily working capital items.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TO THE SHAREHOLDERS OF FITCHBURG GAS AND ELECTRIC LIGHT COMPANY:

We have examined the consolidated balance sheets of Fitchburg Gas and Electric Light Company and Subsidiary as of December 31, 1983 and 1982 and the related consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Fitchburg Gas and Electric Light Company and Subsidiary at December 31, 1983 and 1982 and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

ALEXANDER GRANT & COMPANY

Boston, Massachusetts
February 3, 1984, except for Note 10
(Commitments — Joint Ownership Units and
Construction), as to which the date is March 1, 1984

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

The liquidity and capital resources of the Company, like those of most utility companies, are influenced most significantly by construction required to provide the environmentally-acceptable facilities needed to meet the anticipated energy needs of its customers. The rate-making practices of most utility regulatory commissions, including the Massachusetts Department of Public Utilities (DPU), effectively require substantial external financing of the investment in additional facilities and equipment. Under these practices, the financing costs of construction projects are generally treated as part of the cost of the new facilities. The inclusion of financing costs in the cost of new facilities is accomplished by recording an allowance for funds used during construction (AFUDC) (a non-cash item) in the Statement of Earnings (see Note 1 of Notes to Consolidated Financial Statements). Although this accounting treatment allows recovery of the cost of construction funds through depreciation over the life of the facilities and results in current credits to income, it is not immediately accompanied by cash flow. As a result, the quantity of earnings may not be greatly reduced during periods of heavy construction, but the cash flow content of earnings is substantially reduced. Low internal cash generation requires a large amount of external financing to support the construction program. Consideration of liquidity and capital resources for a utility company must primarily be directed toward an assessment of its ability to attract the capital necessary to support its construction program.

The interest expense incurred by the Company which constitutes the debt component of AFUDC is a deductible item for Federal tax purposes, and substantially all the resulting benefit is used to reduce current income tax expense in accordance with DPU rate-making practice. In order to enhance its cash flow position, the Company petitioned the DPU on January 25, 1982 to grant a "normalization allowance", that is, retention of a portion of these tax benefits by the Company until such time as the related facilities become operational. On July 2, 1982, the DPU dismissed the Company's petition, indicating that the issue presented should be considered in the context of the Company's next full electric rate case. On September 16, 1982, the Company

filed for permanent electric rate relief, which is described below, and incorporated into this rate filing an adjustment to implement increased normalization of the debt component of AFUDC. The DPU, in its March 31, 1983 electric rate order, reaffirmed the practice of normalizing the debt component of AFUDC and required that the Company provide deferred income taxes to fully normalize the tax benefits associated with the debt component of AFUDC.

It is vital to the interests of the Company's shareholders and customers that income from operations be adequate to finance the capital expenditures necessary to meet its service requirements. To achieve a satisfactory level of earnings and improve the cash flow position of the Company, it became necessary to file for permanent gas and electric rate relief on July 16, 1982 and September 16, 1982, respectively. The Company's request for gas rate relief amounted to approximately $3,378,000 on an annual basis and was subsequently revised to approximately $3,173,000 on an annual basis. On January 31, 1983, the Company was granted an increase of approximately $2,318,000, or 73% of the revised amount requested. On March 31, 1983, in response to the Company's request for an increase in electric rates of approximately $4,103,000 on an annual basis, subsequently revised to approximately $3,959,000 on an annual basis, the DPU issued an order granting the Company an increase of approximately $2,139,000 on an annual basis, or 54% of the revised amount requested. In this electric rate order, the DPU denied recovery for rate-making purposes of certain portions of the Company's net investment in the abandoned Pilgrim Unit No. 2 and Montague Units No. 1 and No. 2, and the Company, therefore, charged against earnings approximately $326,000, net of related taxes, of these unrecoverable investments in March 1983. The DPU allowed the Company electric rate relief to amortize the remaining investment in these Units over a three-year period, commencing on April 1, 1983 (see Note 9 of Notes to Consolidated Financial Statements).

Capital expenditures for utility operations in 1983 were approximately $8,320,000, a 2% increase compared to the previous year. In 1983 the Company expended approximately $10,265,000 of its $12,352,000 utility plant expenditures, inclusive of AFUDC, on Seabrook Units No. 1 and No. 2 and Millstone Unit No. 3.

Because of its contractual commitments to Seabrook Units No. 1 and No. 2 and Millstone Unit No. 3, the Company has forecasted a cash construction budget of approximately $9,271,000, exclusive of AFUDC, for 1984, of which approximately $7,079,000 consists of the on-going investment in the jointly-owned nuclear plants. The Company's total cash commitment toward these Units is estimated to be approximately $25,664,000, excluding AFUDC, over the next five years. This estimated five-year cash commitment assumes that the present cost estimates and in-service dates of the respective Units remain unchanged, unaffected by substantial adverse regulatory actions, labor-related disruptions, delays in construction milestones or other similar events (see Note 10 of Notes to Consolidated Financial Statements).

While purchases of long-term Notes will be made to satisfy several annual sinking fund requirements during the next five years, the Company's only long-term debt obligation coming due during this period is the payment at maturity of $3,011,000 of the Company's 4⅞% Notes due 1984.

When internally generated funds are not available, the Company follows a policy of borrowing on a short-term basis to meet its capital requirements and, at the appropriate time, refunds its short-term indebtedness with the proceeds from the sale of long-term debt and equity. The size and timing of such financings will depend upon developments in the financial markets and the ability of the Company to meet financing covenants. The Company has and will continue to review its plans for financing its future service requirements, in particular the timing and amount of cash outlays required for Seabrook Units No. 1 and No. 2 and Millstone Unit No. 3 now under construction.

On October 7, 1983, at a proceeding relating to the approval by the DPU of the issuance and sale of the Company's Common Stock, the Attorney General of The Commonwealth of Massachusetts (Attorney General) requested that the DPU examine the necessity and appropriateness of the Company's continued participation in the Seabrook project and the effect of such participation on the Company's future financings. The DPU took the Attorney General's request under advisement. The Company is unable to predict the decision of the DPU with respect to the Attorney General's request or the effect on future financings of the proceedings, if any, which may result therefrom.

As of December 31, 1983, under the Company's most restrictive coverage tests, the Company could have issued approximately $1,600,000 of preferred stock at a dividend rate of 14% and approximately $10,000,000 of long-term debt at an interest rate of 14½%. The Company presently anticipates that, during 1984, 100% of its estimated construction expenditures and all dividends paid on its stock will be financed by externally generated funds.

On February 21, 1984, the Company filed petitions before the DPU seeking approval to issue up to $5 million of Cumulative Preferred Stock, $13 million of long-term Notes and an additional $2 million of long-term Notes to facilitate the issuance of pollution control revenue bonds by a tax-exempt authority. The proposed issuance of such securities embodies the Company's 1984 financing plan. Hearings on the Company's petitions are scheduled for March 19, 1984. The Attorney General has intervened in the proceeding for purposes of examining the Company's construction program.

Based upon current construction estimates, the Company anticipates that it will seek to raise approximately $10-15 million through the issuance of senior securities in 1985. While the Company has not determined its specific financing plans for any period after 1985, it believes that its outside financing requirements should decrease substantially. This decrease in the need for financing should principally result from a significant improvement in the Company's cash flow associated with the commercial operation of Seabrook Unit No. 1, currently projected for July 1986, and its inclusion in rate base. Any delay with respect to the planned in-service dates of these Units may result in significantly higher construction and financing costs for these Units and, consequently, increased future financing requirements.

The continuing uncertainty as to the ultimate cost and in-service date of Unit No. 2 has led some of the joint owners, including the Company, to question the economic viability of the Unit. On December 29, 1983, the Company announced that it could no longer support the completion of Unit No. 2 due to the uncertainty surrounding the actual completion date, the cost of the Unit itself and the ultimate cost of the power to be generated by that Unit. The Company does, however, intend to continue to comply with its contractual obligations by making monthly payments for Unit No. 2's reduced level of construction.

At a meeting of the joint owners on March 1, 1984, Public Service Company of New Hampshire (PSNH) announced that the projected in-service dates for Seabrook Units No. 1 and No. 2 are July 1986 and December 1990, respectively, and that the total cost of the project could be as high as $9 billion. The previous official estimates for the Seabrook project, released in November 1982, set the total cost at $5.24 billion with in-service dates of December 1984 and July 1987 for Units No. 1 and No. 2, respectively. These new projections indicate that Units No. 1 and No. 2 are approximately 72% and 22% complete, respectively, a change from previous completion estimates of 89% and 29%. PSNH and its newly hired senior construction executive for the Seabrook project will be undertaking a comprehensive review of these new projections in the ensuing months, since PSNH believes the cost projections to be too high because they do not reflect changes that will be implemented by PSNH. At the meeting on March 1, 1984, Management Analysis Company (MAC) reported that there is a substantial probability that if significant management and construction changes are not implemented, the above-mentioned cost and completion date projections will not be achieved. MAC did, however, indicate that there are significant opportunities for improvement in the construction of the project. Accordingly, MAC recommended that the joint owners not adopt the new cost and schedule projections as an official estimate pending the further review by PSNH. As a conservative measure, FG&E is using these new projections for financial planning purposes until the further review is completed.

The Company cannot determine at this time the magnitude of the final costs which would be incurred by the Company in the event that any of the above-mentioned Units under construction is cancelled, or the extent to which rate relief would permit a return on and/or recovery of these costs. Failure to obtain adequate and timely rate relief in such circumstances could have a material adverse impact on the Company's earnings and its ability to pay dividends on its stock (see Note 10 of Notes to Consolidated Financial Statements). It is conceivable that cancellation of any of the above-mentioned Units could result if one or more of the other participants in such Units should become financially unable to pay its share of the costs of such Unit(s) or become subject to regulatory or legislative action restricting further payments of such costs. The Company is cognizant of its responsibility to ensure that each of the major construction projects is prudently managed, has effective cost control and can be completed as expeditiously as possible. The Company has reviewed and will continue to review this situation very closely and will take all reasonable action available to it to ensure that the goals are met.

On October 20, 1983, the Company sold 400,000 shares of Common Stock to the public. At various dates during 1983, the Company issued 29,232 shares of Common Stock in connection with its Dividend Reinvestment and Stock Purchase Plan (DRP) and Employee Stock Ownership Plan (ESOP). On June 24, 1982, the Company issued 150,000 shares of Common Stock to the public. On August 5, 1982, the Company sold

to the public 180,000 shares of an initial series of Cumulative Preferred Stock, $1 par value, with an annual dividend rate of $4.00 per share. The Company privately sold $5,000,000 of its 17¼% Notes due 1992 on August 24, 1982. The Company also issued in 1982, at various times, 23,123 shares of Common Stock in connection with DRP and ESOP. In 1981 the Company issued 125,000 shares of Common Stock to the public and 4,232 shares in connection with ESOP. The Company previously issued, during 1980, 100,000 shares of Common Stock to the public and 3,002 shares in connection with ESOP. In 1980 the Company also sold privately $5,000,000 of its 15¾% Notes due 2000. The Company's service center, costing approximately $2,700,000, is being funded through a sale and leaseback arrangement entered into in February 1981 for an initial term of 22 years. The Company has a 25-year lease on a combustion turbine and liquefied natural gas storage facility which commenced in 1973. The Company leases other equipment including its computer system.

Operating Results

In 1983 Net Income rose by approximately $1,298,000 (65%), after declining by approximately $600,000 (23%) in 1982. Earnings per average common share for 1983 were $2.43, a 31% increase on a larger number of shares outstanding, as compared to $1.86 earned in 1982. During 1981 earnings per average common share were $3.72. Higher earnings in 1983 reflect primarily the gas and electric rate increases granted in 1983, reduction in the net amortization of cost of abandoned properties, lower property taxes and growth in kilowatt-hour sales (KWH), resulting from the economic recovery experienced within the service area. Earnings were adversely affected by a non-recurring adjustment to reflect the write-off of the unrecoverable portion of the Company's investment in the abandoned nuclear generating facilities Pilgrim Unit No. 2 and Montague Units No. 1 and No. 2. The decline in 1982's earnings was in large measure due to lower KWH sales to major industrial users and a significant reduction in the gross profit associated with interruptible gas sales (sales to customers who possess alternative energy sources and who use gas on an as-available basis).

Electric Operating Revenues were higher by 3% in 1983, reflecting the impact of the 1983 electric rate order and a 4% KWH growth in residential, commercial and industrial sales. In 1982, Electric Operating Revenues declined by 11%, primarily due to the adverse effects of the economic recession upon certain of the Company's large industrial customers, which led to a 7% decrease in KWH sales from 1981.

Gas Operating Revenues rose by 8% and 10% in 1983 and 1982, respectively. In 1983 the gas rate increase and higher cost of purchased gas were responsible for the rise in operating revenues. In 1982 the increase was principally due to the higher cost of purchased gas, which is passed on to customers through the operation of a cost of gas adjustment clause. The volume of firm gas sales declined by 9%, and 2% in 1983 and 1982, respectively. 1983 firm gas sales were adversely affected by the warmer than normal weather conditions and a conversion from gas to lower-priced fuels by certain commercial and industrial customers who have dual fuel capabilities. 1982 firm gas sales were also adversely affected by the warmer than normal weather conditions and gas conversions.

Fuel Used in Electric Generation rose by 9% in 1983, reflecting increased demand for electricity and a reduction in the costs of fuel oil during the year. This compares with a 24% decline in Fuel Used In Electric Generation in 1982, a year in which there was a reduction in demand for electricity and the costs of fuel oil. Electricity Purchased for Resale declined by 3% in 1983, reflecting principally lower energy costs for electricity. This decline in Electricity Purchased for Resale occurred despite additional purchased power contract demand charges in 1983. Electricity Purchased for Resale declined by 7% in 1982, reflecting the reduced demand for electricity, while the per unit energy cost rose by only .06 cent (1.2%). Gas Purchased for Resale rose by 7% and 19% in 1983 and 1982, respectively, due primarily to higher prices charged by the Company's pipeline supplier.

Operating Expenses, Other increased by 7% and 5% in 1983 and 1982, respectively, resulting primarily from higher payroll and related benefits costs. Amortization of Cost of Abandoned Properties declined in 1983, because of the completion in 1982 of amortization of the costs related to three abandoned units and, beginning in April 1983, the recording of amortization on the recoverable portion of the Pilgrim Unit No. 2 investment (see Note 2 of Notes to Consolidated Financial Statements).

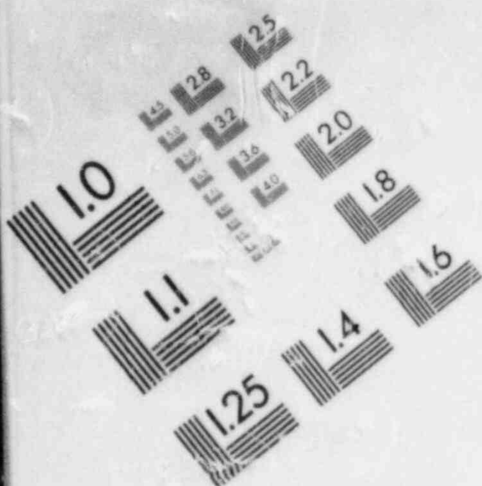
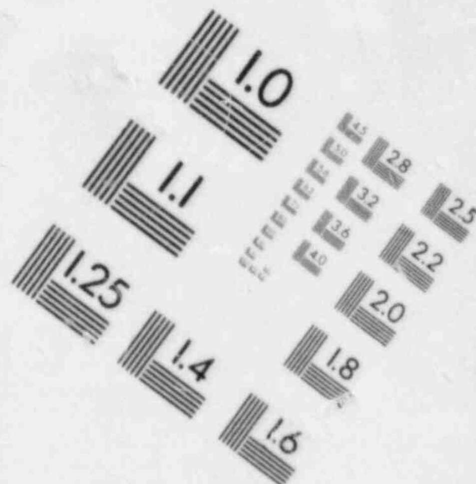
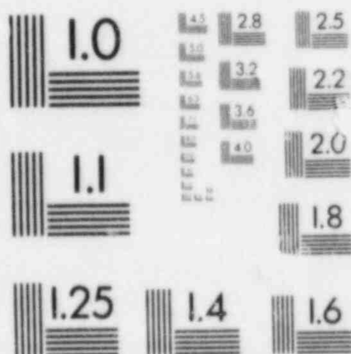
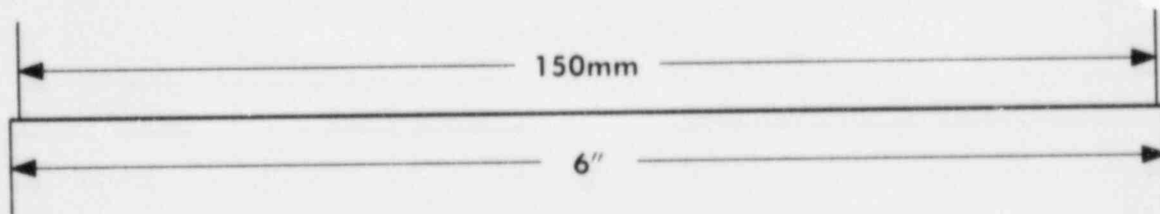
Deferred Federal Income Tax increased significantly as a result of the March 1983 electric rate order which allowed full normalization of the tax benefits associated with the debt component of AFUDC (see Notes 1 and 8 of Notes to Consolidated Financial Statements).

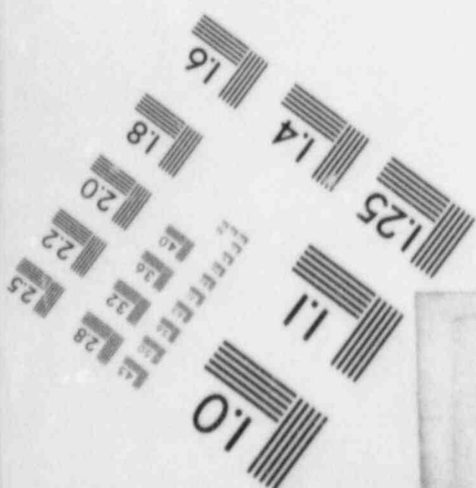
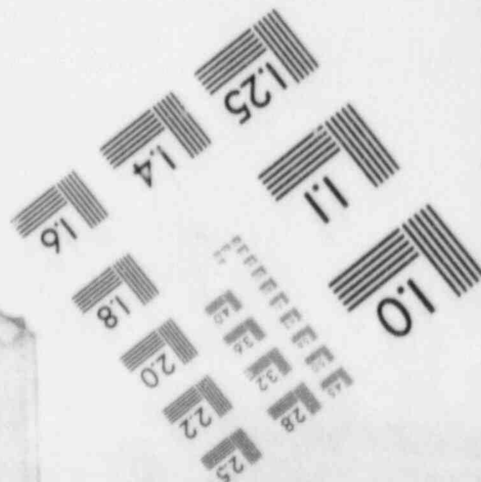
AFUDC rose by 38% and 32% in 1983 and 1982, respectively, reflecting the cost of financing the Company's on-going capital projects. AFUDC increased by 179% in 1981, principally due to a significant rise in the level of average yearly short-term borrowings, resulting primarily from the additional Seabrook purchases (see Note 10 of Notes to Consolidated Financial Statements) and increased interest rates.

Local Property Taxes decreased by 36% in 1983, reflecting primarily a reduction in the property tax rate by the City of Fitchburg on commercial and industrial property. The March 1983 write-off of Investment in Abandoned Properties resulted from the non-recurring adjustment to reflect the write-off of the unrecoverable portion of the Company's investment in the abandoned Pilgrim Unit No. 2 and Montague Units (see Note 2 of Notes to Consolidated Financial Statements). Local Property Taxes increased by 5% in 1982, due principally to the amount of abatements and reduction of prior period assessments received in 1981.

Other Interest Charges declined by 36% and 3% in 1983 and 1982, respectively, primarily due to lower interest rates. Average daily bank borrowings were approximately $8,221,000 and $8,404,000 in 1983 and 1982, respectively. Average daily interest rates on these borrowings on an annual basis were 9.8% and 15.5% for 1983 and 1982, respectively. Interest on long-term debt increased by 21% and 12% in 1983 and 1982 as a result of the sale of the 17¼% Notes in August 1982. Dividend Requirements on Preferred Stock rose by 76% and 107% in 1983 and 1982, respectively, reflecting the issuance in 1982 of Cumulative Preferred Stock, $4.00 Series, mentioned above.

IMAGE EVALUATION
TEST TARGET (MT-3)

SELECTED FINANCIAL DATA

	1983	1982	1981	1980	1979
Results of Operations (000's)					
Operating Revenues:					
Electric	$ 29,119	$ 28,194	$ 31,555	$ 28,525	$ 24,475
Gas	19,758	18,289	16,583	13,785	9,786
Total Operating Revenues	$ 48,877	$ 46,483	$ 48,138	$ 42,310	$ 34,261
Electricity Purchased for Resale	$ 13,076	$ 13,517	$ 14,466	$ 13,516	$ 10,471
Fuel Used in Electric Generation	$ 5,155	$ 4,731	$ 6,242	$ 4,917	$ 3,402
Gas Purchased for Resale	$ 14,216	$ 13,346	$ 11,174	$ 9,172	$ 5,851
Amortization of Cost of Abandoned Properties	$ 172	$ 694	$ 766	$ 824	$ 657
Local Property Tax — Net	$ 950	$ 1,484	$ 1,415	$ 1,626	$ 1,118
AFUDC: Borrowed and Other Funds	$ 4,032	$ 2,919	$ 2,206	$ 791	$ 629
Write-off of Investment in Abandoned Properties	$ 326	—	—	—	—
Net Income	$ 3,288	$ 1,990	$ 2,590	$ 1,703	$ 2,261
Dividend Requirements on Preferred Stock	970	549	265	274	282
Net Income Applicable to Common Stock	$ 2,318	$ 1,441	$ 2,325	$ 1,429	$ 1,979

	1983	1982	1981	1980	1979
Common Stock Data					
Shares of Common Stock:					
Year end (000's)	1,290	861	688	558	455
Average (000's)	954	773	625	513	455
Earnings per Average Common Share Outstanding	$2.43	$1.86	$3.72	$2.78	$4.34
Dividends Declared per Common Share	$2.60	$2.60	$2.60	$2.60	$1.90

	1983	1982	1981	1980	1979
Balance Sheet Data (000's)					
Utility Plant (at cost)	$ 85,738	$ 73,895	$ 63,114	$ 51,220	$ 47,144
Accumulated Depreciation	$ 12,648	$ 11,529	$ 10,441	$ 10,899	$ 9,850
Total Assets	$ 85,788	$ 75,511	$ 69,059	$ 55,520	$ 50,813
Capitalization and Short-term Notes:					
Common stock equity	$ 28,048	$ 19,615	$ 17,604	$ 14,754	$ 12,545
Redeemable preferred stock equity	$ 8,103	$ 8,220	$ 3,837	$ 3,954	$ 4,071
Long-term debt	$ 22,416	$ 25,786	$ 21,182	$ 21,573	$ 16,780
Short-term notes payable	$ 6,700	$ 5,700	$ 10,300	$ 1,700	$ 5,420

SELECTED FINANCIAL DATA — (Continued)

	1983	1982	1981	1980	1979
Electric Statistics					
Sales — Thousands of KWH	348,488	336,367	360,272	370,946	392,691
Electric Customers — Year End	23,233	22,869	22,674	22,339	21,744
Average Annual KWH Sales per Residential Customer	4,929	4,852	4,788	4,844	5,033
Average Revenue per Hundred KWH — Residential	$9.57	$9.47	$10.48	$9.07	$7.78
Gas Statistics					
Sales — Thousands of MCF	2,551	2,653	2,819	2,894	2,343
Gas Customers — Year End	15,023	14,955	14,767	14,280	13,693
Average Annual Cubic Feet Sales per Residential Customer	91,438	99,291	97,914	97,013	86,431
Average Revenue per MCF — Residential	$8.78	$7.28	$6.31	$5.25	$4.62

QUARTERLY FINANCIAL DATA

Summarized quarterly financial data for 1983 and 1982 is as follows:

	Three Months Ended			
	March 31,		June 30,	
	1983	1982	1983	1982
Total operating revenues	$14,057,241	$15,836,136	$10,683,476	$10,222,040
Operating income	$ 1,171,129	$ 1,198,398	$ 671,771	$ 590,287
Net income	$ 822,844	$ 803,375	$ 550,098	$ 208,710
Earnings per average common share	$.67	$1.07	$.35	$.21

	Three Months Ended			
	September 30,		December 31,	
	1983	1982	1983	1982
Total operating revenues	$10,373,510	$ 9,058,848	$13,763,012	$11,366,076
Operating income	$ 579,721	$ 387,494	$ 1,104,867	$ 784,748
Net income	$ 637,134	$ 312,242	$ 1,278,169	$ 665,878
Earnings per average common share	$.45	$.16	$.86	$.49

Net income for the quarter ended December 31, 1982 has been reduced by $154,224, or $.18 of earnings per average common share, due to additional demand charges under purchased power contracts for 1982 and 1981.

About the Company

The area served by the Company encompasses approximately 170 square miles in north central Massachusetts with a population of approximately 80,000 people. The Company provides both gas and electric service to the communities of Fitchburg, Ashby, Lunenburg and Townsend. In addition, we provide gas service in the neighboring areas of Gardner and Westminster.

Philip H. Bradley†*
Retired; formerly Resident Manager, Northeast, of IBM Corporation, Waltham, Mass.

Richard L. Brickley
Lawyer; partner in the law firm of Brickley, Sears & Sorett, Boston, Mass.; Director of subsidiary.

Howard W. Evirs, Jr.
Retired; former President of the Company.

† Member of Audit Committee.

* Member of Compensation Committee.

John Grado, Jr.*
Chairman of the Board of Directors and President, Technigraphics, Inc. (manufacturer of specialty paper, printing and forms).

Thomas W. Sherman
Director, Executive Vice President and Controller of Bay State Gas Company, Canton, Mass.; Director of subsidiary.

Robert V. Shupe†
President of R. L. Gourley Co., Inc., Wellesley, Mass. (distributors of heating, air conditioning and water heating equipment); President of Hydronic Technology, Inc., Wellesley, Mass. (manufacturers of gas boilers).

Charles H. Tenney II*
Chairman of the Board of Directors, President and Chief Executive Officer of the Company; Director, Chairman of the Board of Directors and Chief Executive Officer of subsidiary; Director, Chairman of the Board of Directors and Chief Executive Officer of Bay State Gas Company, Canton, Mass., Concord Electric Company, Concord, N.H.., and Exeter & Hampton Electric Company, Exeter, N.H.

Robert L. Ware†
Lawyer; partner in the law firm of Ware & Ware, Fitchburg, Mass.

Charles H. Tenney II
*Chairman of the Board of Directors, President and Chief Executive Officer.***

Frank L. Childs
Executive Vice President; Director and President of subsidiary.

David K. Foote
Vice President; Director and Vice President of subsidiary.

Lawrence T. Gingrow, Jr.
Vice President.

Peter J. Stulgis
Vice President and Treasurer; Director, Vice President and Treasurer of subsidiary; Vice President and Treasurer of Concord Electric Company, Concord, N.H., and Exeter & Hampton Electric Company, Exeter, N.H.

Charles J. Kershaw, Jr.
Assistant Treasurer; Assistant Treasurer of subsidiary; Assistant Treasurer of Concord Electric Company, Concord, N.H., and Exeter & Hampton Electric Company, Exeter, N.H.

Edward D. McKenzie
Assistant Treasurer; Assistant Treasurer of subsidiary; Assistant Treasurer of Concord Electric Company, Concord, N.H.; Assistant Treasurer and Secretary of Exeter & Hampton Electric Company, Exeter, N.H.

Angela P. Carlson
Clerk; Secretary of subsidiary; Clerk of Bay State Gas Company, Canton, Mass.; Secretary of the Board of Directors of Concord Electric Company, Concord, N.H., and Exeter & Hampton Electric Company, Exeter, N.H.

William D. MacGillivray
Assistant Clerk; Assistant Secretary of subsidiary; Assistant Clerk of Bay State Gas Company, Canton, Mass.

Allen R. Damren
Controller; Controller of subsidiary.

** See Director listing for other principal occupations.

Subsidiary: Fitchburg Energy Development Company.

FG&E FITCHBURG GAS AND ELECTRIC LIGHT COMPANY
Using our energies to serve you best

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