New England Electric System

Annual Report 1983

On the cover:

New England Electric's Samuel C. Moore Station, the largest conventional hydroelectric station in the Northeast. Moore Station, which spans the Connecticut River near Littleton, New Hampshire, and St. Johnsbury, Vermont, started generating power in 1957. New England Electric began as a hydro company and hydro power continues to be a valuable part of our energy mix today.

Financial Highlights	**1983**	1982	1981
Earnings per average share	**$5.48**	$4.65	$4.05
Dividends declared per share	**$3.25**	$2.95	$2.655
Annual dividend rate – year end	**$3.40**	$3.00	$2.80
Book equity per share – year end	**$32.27**	$29.90	$28.29
Market price per share – year end	**$39.00**	$33.25	$24.75
Return on average common equity	**17.6%**	16.0%	14.6%

New England Electric System is a public utility holding company headquartered in Westborough, Massachusetts. Subsidiaries include three retail operating companies – Massachusetts Electric Company, which serves 795,000 customers in 146 Massachusetts communities; Narragansett Electric Company, which serves 279,000 customers in 27 Rhode Island communities; and Granite State Electric Company, which serves 29,000 customers in 21 New Hampshire communities. Other subsidiaries include a wholesale generating company, New England Power Company, which operates 22 generating stations; an oil and gas exploration and fuels company, New England Energy Incorporated; an international transmission service company, New England Electric Transmission Corporation; a conservation service company, NEES Energy; and a service company, New England Power Service Company.

Dear Shareholder:

1983 was a good year for New England Electric with earnings per average share at a record $5.48. The System's average annual earnings growth rate is 11 percent for the past five years.

In February, the Directors of your System increased the quarterly dividend from 75 to 80 cents per share. In November, they increased the dividend again to 85 cents per share, the eighth increase in the past five years. Dividends declared in 1983 represent a payout of 59 percent of earnings.

Nearly five years have elapsed since our long-range planning effort, NEESPLAN, was initiated. It continues today as our principal planning guide. We have made real progress toward achieving the key NEESPLAN objectives of keeping customers' costs to a minimum and reducing reliance on foreign oil.

In 1978 and for decades prior to that year, our customers paid a cost per kilowatthour that was among the highest in New England. By 1982, we were among the lowest cost producers of electricity in New England (in the bottom third), and we continued this record in 1983.

Much of this reduction has been accomplished by the conversion of six generating units from oil to coal firing. In 1983, we burned 2.8 million tons of coal, displacing 11.5 million barrels of oil and saving our customers $45 million.

Coal represents 50 percent of the System's estimated energy needs in 1984 and oil only 25 percent. This compares with a 78 percent reliance on oil in 1979 prior to starting the conversion to coal.

We anticipate burning about 11 percent more coal in 1984 than we did in 1983, primarily because the largest coal burning unit at our Brayton Point Station is back in service after a six-month outage. This outage was triggered by a major turbine failure late in August 1983.

In 1984, we expect to finish installation of new electrostatic precipitators and other environmental control equipment at our Salem Harbor Station, completing this $100 million coal conversion project.

Coal is moved to our generating stations by a combination of rail and water transport. On July 9, 1983, together with our shipping partner, Keystone Shipping Co., we christened the *Energy Independence*, the first coal-fired, coal-carrying ship built in the United States in many decades. This self-discharging vessel is now in its first year of operation. We believe this ship has the potential both to save our customers shipping costs and to contribute to our earnings. We have invested $11 million for a 51 percent equity ownership of this $73 million vessel.

This year we have elected to consolidate the financial results of our oil and gas exploration and fuels subsidiary, New England Energy Incorporated (NEEI), with the financial results of the System as a whole.

The scope of this subsidiary has gradually increased over the years, and we now believe consolidation more clearly depicts our principal activities.

Because of the current level of NEEI's oil and gas expenditures and the fact that oil and gas prices continue to be relatively soft, we have proposed a change in the pricing policy used by this subsidiary. The proposed policy is detailed on page 17. Based on this proposal, we did not record any oil and gas earnings in 1983 and expect to record none over the next few years. NEEI's proved and probable reserves now exceed 21.7 million barrels of oil and gas equivalent, up from 14.8 million barrels a year ago, and our 1983 production exceeded 1.9 million barrels.

In March 1983, Donald E. Rose, former System treasurer, was elected to the position of executive vice president of NEEI with responsibility for the purchase of coal. Alfred D. Houston was elected System treasurer, succeeding Mr. Rose.

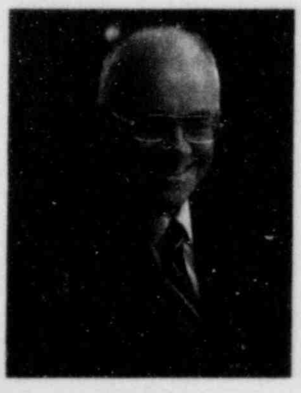
In November 1983, James C. Nesbitt, System vice president-finance, retired after 36 years of dedicated service. Mr. Nesbitt guided our financial activities for many years and is highly respected for his knowledge of accounting matters, particularly regarding regulated holding companies.

Samuel Huntington, System vice president, has assumed executive responsibility for financial matters in addition to his previous responsibility for legal and rate activities. Mr. Huntington joined the System in 1976 after teaching at Boston University School of Law and serving as an attorney with the U.S. Solicitor General's office.

One of our major accomplishments in 1983 was the introduction of our "All Employees Goals Program." This program offers incentives to employees to meet certain financial and operational goals. We are very proud of the men and women who work for the System companies, and believe this new program has the potential of helping us all achieve more for our customers and for you, our investors, in the years ahead.

Guy W Nichols

Chairman

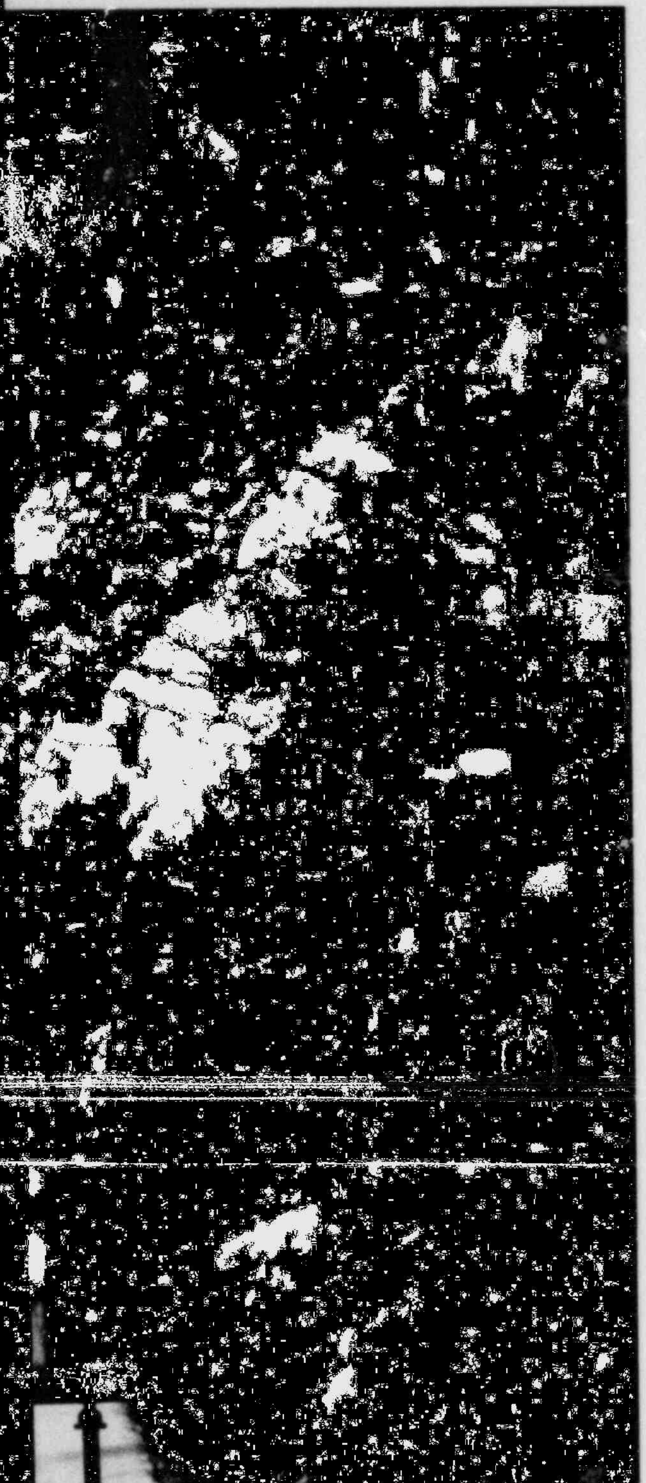


Joan T Bok

Vice Chairman

March 2, 1984

Troubleman Thomas Tattersall prepares to energize a transformer in Milford, Massachusetts.



New England's economy prospered in 1983 and sales of electric energy increased as unemployment rates fell.

During the recent recession, the economy of this region held up surprisingly well. Massachusetts routinely reported the lowest unemployment rate of the ten most industrialized states, and New Hampshire continues to have one of the lowest unemployment rates in the nation.

With the resurgence of the economy in 1983, New England continued to outpace the national average, both in terms of growth of personal income and in terms of job opportunities.

The System's largest retail company, Massachusetts Electric, serves much of the central and northeastern parts of the Commonwealth including those areas along Interstate 495 that are in the midst of a major building boom. This highway circles westward around Boston from the northeast to the southwest and serves Digital Equipment Corporation, Wang Laboratories, Data General and a host of other major firms that are at the forefront of technology. Many of these companies had their start in the classrooms and laboratories of Massachusetts Institute of Technology, Harvard University, Worcester Polytechnic Institute and the other great educational institutions located in this area.

Rhode Island has yet to fully share in the economic strength of Massachusetts and New Hampshire, but Rhode Island is undergoing a series of changes that should improve its economic climate in the years ahead.

One such change was the introduction of The Narragansett Plan in November 1982. The key feature of this plan, developed and offered by the System's Rhode Island retail company, Narragansett Electric, is a significant discount for new or expanded large industrial and commercial customers. This discount has been accepted by the Rhode Island Public Utilities Commission.

Another promising sign for the Rhode Island economy is the Rhode Island Strategic Development Commission's Greenhouse Compact, announced in October 1983. This compact is aimed at strengthening the existing industrial base and increasing employment by encouraging new business start ups.

In 1983, the System's kilowatthour sales to ultimate customers were up 5.4 percent, the first significant increase in five years. Our average kilowatthour growth rate over the past five years has been 1.5 percent. We are fortunate that over the same period our growth in peak demand has been only 0.6 percent per year. This indicates our System load factor is improving and the growth we are experiencing permits more efficient use of our generating facilities.

Until 1980, the System's peak demand for electricity routinely occurred during the winter months. This is changing, and we are now in a seasonal step-peak situation where the peak demand for electricity in the summer of 1983 was greater than the previous year's winter peak and the peak demand in the winter of 1983-84 was greater as well. To further improve our load factor, we need to fill our spring and fall "load valleys."

Another challenge for the future is to provide all the electricity essential for a healthy New England economy and at the same time keep our growth in peak demand to 1.8 percent per year or less. We have done this easily over the past several years and believe we can do this in the years ahead. This will permit us to defer the need for expensive new generating facilities that would increase the price of our product.

To accomplish this objective may well require our best efforts in load management and conservation. The System's load management programs include testing of storage heating systems, evaluating the energy efficiency of heat pumps for heating and cooling, and testing customer willingness to reduce the amount of electricity used at peak times in return for lower rates.

To show consumers the latest energy conservation techniques for new homes, we have sponsored an Energy Efficient Home Design Competition. We are building three of the winning homes and are offering blueprints of these designs. Other conservation programs include weatherization grants to communities and hospitals, energy audits, and testing the practical aspects of solar water heating.

Architect Jacques Fauteux with a model of his winning design in the System's Energy Efficient Home Design Competition.

A decade has passed since the energy crisis of the early 1970s, when oil was in short supply and fuel prices skyrocketed. Today our energy mix is significantly improved, our electric costs are more competitive compared with the rest of the nation, and we have a more secure supply of domestic fuel sources.

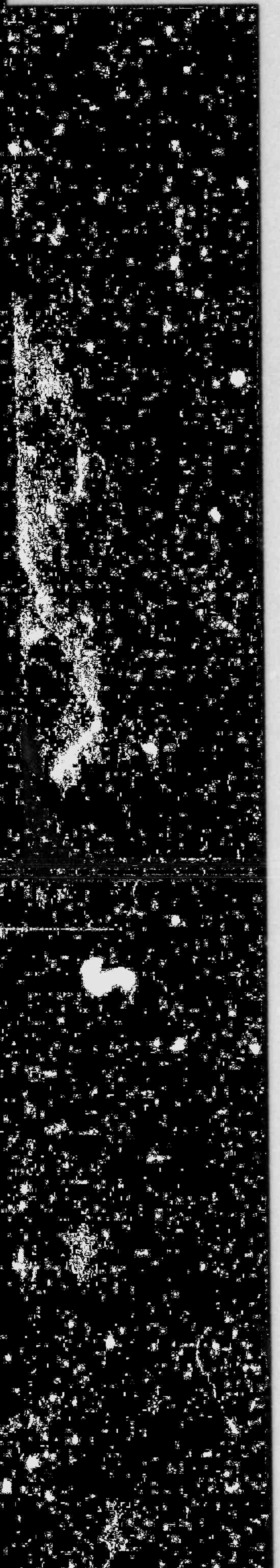
New England Electric's prices to customers are now relatively low compared with the average cost for electricity in New England. However, our prices are still about 25 percent higher than the average price for electricity in the United States.

As we look to the future, we believe this differential will decrease, in part because prices in the rest of the country are rising faster than prices charged by our System. This is due to our reduced use of high cost oil and our increased use of less expensive coal. It is also due to the faster growth rate that most utilities in other regions are experiencing. Their faster growth necessitates the construction of a proportionately greater number of new and costly generating facilities. Furthermore, natural gas, used in great quantity in utility boilers in some parts of the country, has in the past been available at artificially low prices. The price of this fuel is increasing rapidly for these utilities as old, long-term contracts expire and have to be renegotiated at today's price levels.

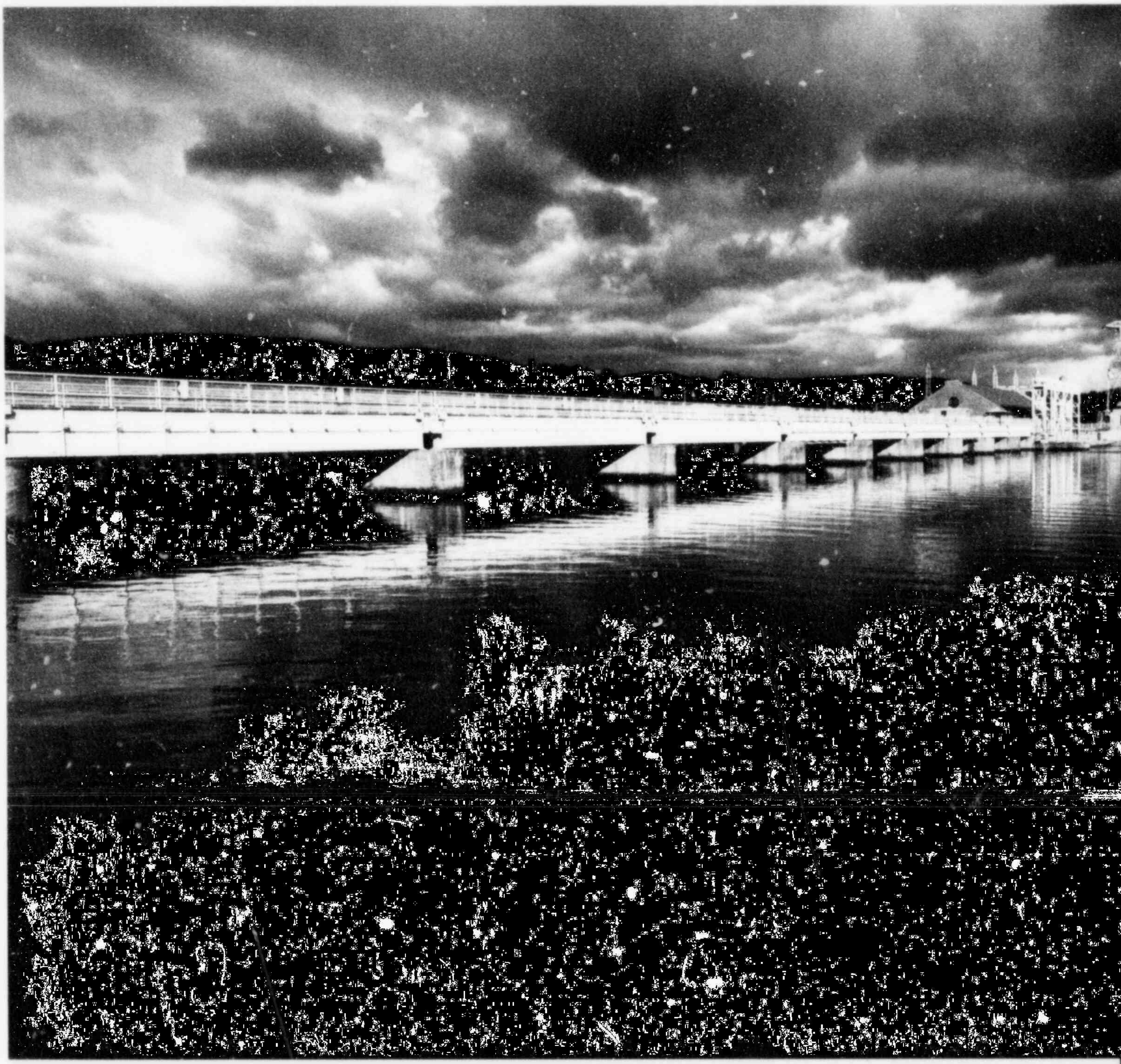
New England Electric's relatively low price per kilowatthour within the Northeast region is due largely to the fact that coal now represents half of our total energy mix. Since 1979, we have burned more than seven million tons of coal, displacing more than 28 million barrels of oil and saving our customers more than $115 million.

Conversion from oil to coal burning of three generating units totaling 1150 megawatts at our Brayton Point Station in Somerset, Massachusetts, has been successfully completed.

We are also burning coal in three units totaling 310 megawatts at our Salem Harbor Station in Salem, Massachusetts, under a delayed compliance order from the U.S. Environmental Protection Agency. This order allows coal to be burned while we install



John Willen, Mark Olson, Bruce Martin and Mark LaRoche perform maintenance work in the boiler of one of three coal-burning units at the System's Brayton Point Station.



Wilder Station houses two of the System's 43 hydroelectric units. This station, which began operation in 1950, spans the Connecticut River between Wilder, Vermont, and Lebanon, New Hampshire.

additional environmental equipment. Work is ahead of schedule and we expect all three units will be fully converted by the end of 1984.

Coal burning has not only contributed to our improved energy mix, but has also been an environmental success. In July 1983, the System was awarded a certificate of recognition by Massachusetts Governor Michael S. Dukakis for emission control achievements at Brayton Point Station that have resulted in a 50 percent reduction in particulate emissions and a 20 percent reduction in sulfur dioxide emissions.

We have significantly reduced the amount of oil in our energy mix. In 1983, we used 7.7 million barrels of oil, roughly one third of the 21 million barrels used in 1978.

Our energy mix also includes nuclear energy obtained from small ownership positions in four nuclear facilities. Looking to nuclear units now under construction, we have a 12 percent interest in Millstone 3 in Connecticut and a 10 percent interest in the two Seabrook units in New Hampshire. In early 1983, we concluded that it would be in the best interest of our customers if we could dispose of our share of Seabrook 2. There is no market for these shares, and, thus, we favor cancellation of this unit, as do five other joint owners. Although many regulators concur with this opinion, the lead and controlling owner has not agreed to cancellation. However, we have been successful in getting the level of construction activity on Seabrook 2 reduced to the minimum consistent with keeping the option of accelerating activity at a later date.

Hydroelectric energy is also a valuable part of our energy mix and 1983 was a fine year for the System's 43 hydroelectric units. Above normal precipitation and timely runoff from the watersheds of northern and western New England contributed to a 14 percent increase in production of hydroelectric energy.

We continue to pursue electricity from alternate energy sources such as trash, cogeneration and small hydro and have made substantial progress toward meeting our recently increased goal of 300 megawatts from these sources by 1998.

New England Electric is involved in a number of business ventures related to our basic electric utility operations.

In July 1983, we christened the *Energy Independence,* our coal-fired, coal-carrying ship. We built and are operating this ship as a joint venture with Keystone Shipping Co. of Philadelphia.

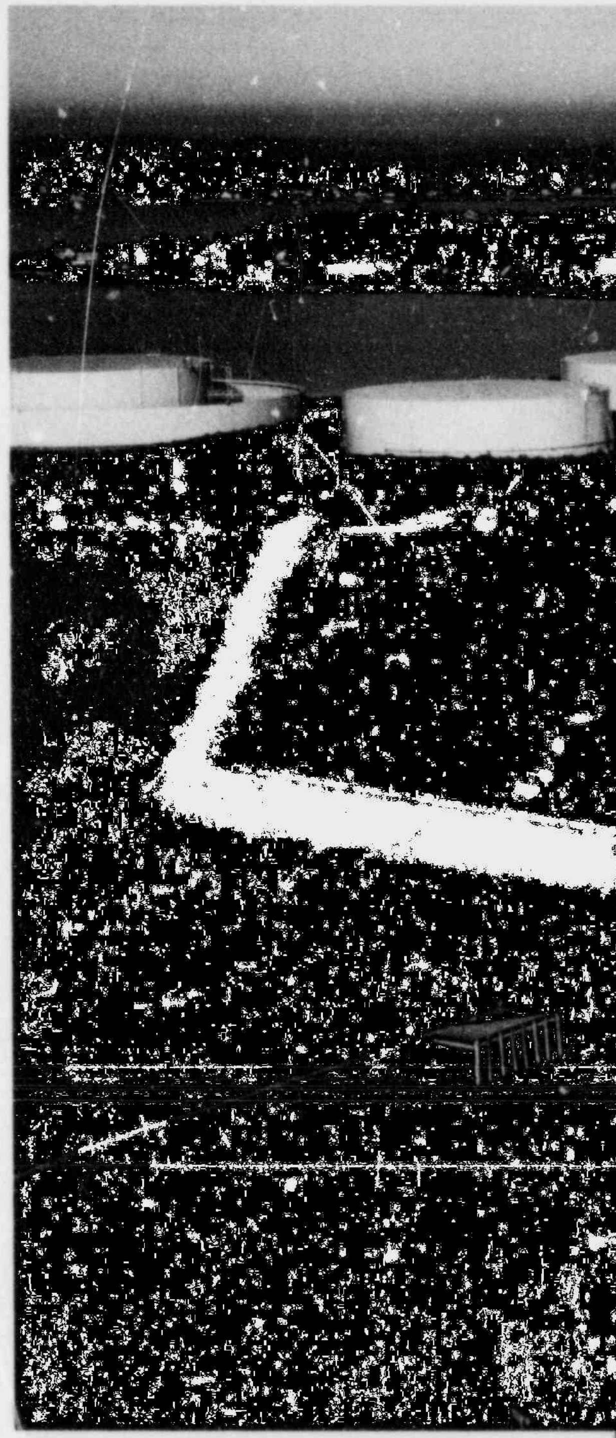
The ship transports coal from ports in Norfolk, Baltimore and Philadelphia to our generating stations in Somerset and Salem, Massachusetts. This self-discharging vessel will make approximately 65 round trips per year and will deliver about three-fourths of the System's annual coal needs.

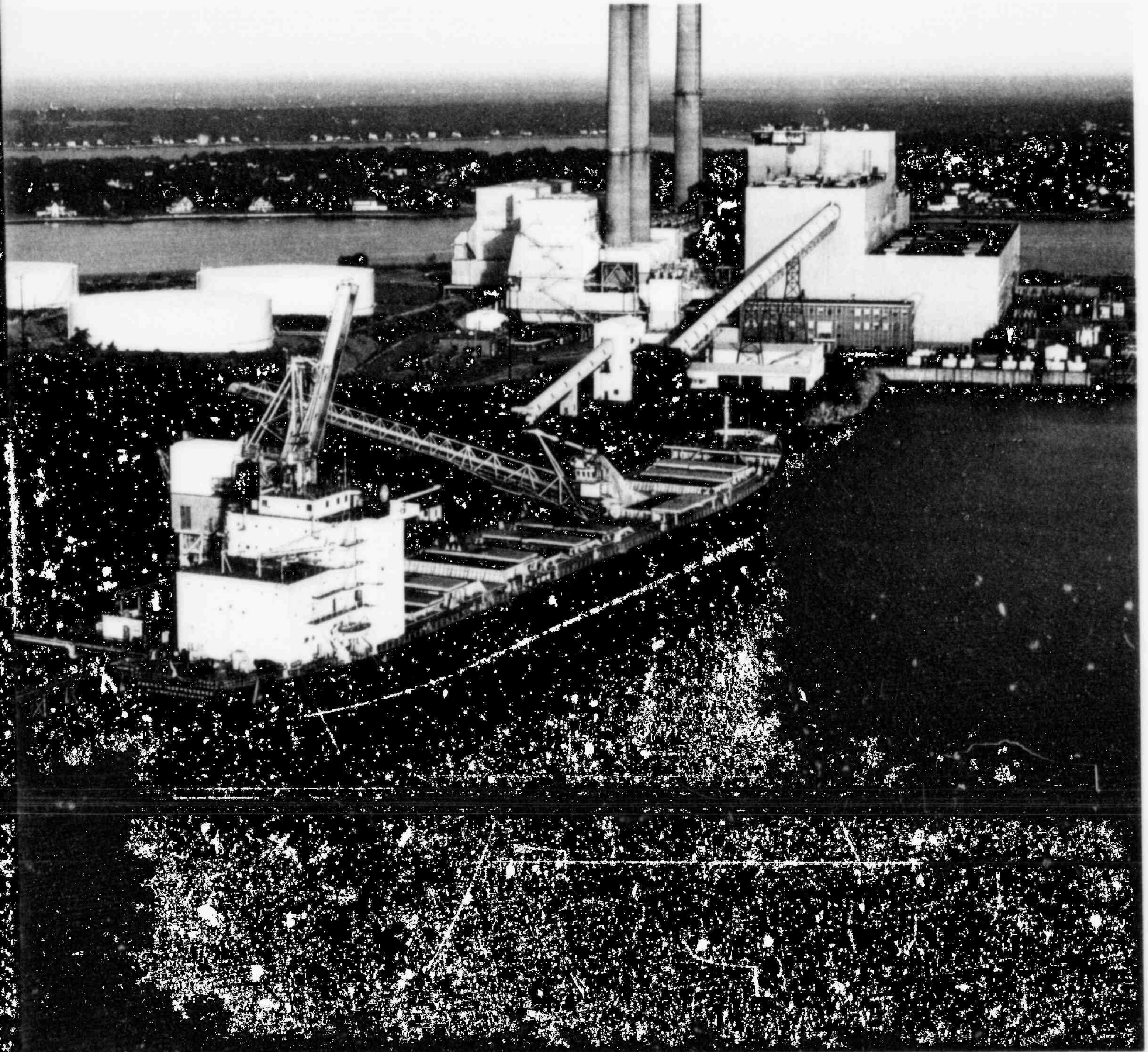
Our experience has already shown that the *Energy Independence* is currently both carrying more coal per trip to our power plants and delivering at a faster rate than was originally expected. We anticipate that this ship will provide significant savings for customers as well as a favorable return on investment.

In 1983, the System's fuels subsidiary, New England Energy Incorporated (NEEI), continued to explore for and develop domestic fuels and produced more than 1.9 million barrels of oil and gas equivalent.

With our partner, Samedan Oil Corporation, the exploration and production subsidiary of Noble Affiliates, Inc. of Ardmore, Oklahoma, we significantly increased our oil and gas reserves in 1983, due in large part to exploration and development activities on leases in the Gulf of Mexico. Total discoveries of 8.7 million barrels of oil and gas equivalent increased NEEI's proven reserves to 15 million barrels of oil and gas equivalent and increased our probable reserves from 2.2 to 6.7 million barrels of oil and gas equivalent. Exploration and development costs for 1983 were $149 million, which brought our total expenditures, over the past decade, to more than $600 million.

With Samedan, we began production on several properties and increased our leasehold inventory in the Gulf of Mexico in 1983. At a cost of approximately $23 million, we participated in two federal offshore lease sales and purchased interests in 32 tracts in the





The Energy Independence, the System's coal-fired, coal-carrying ship, delivers coal at Brayton Point Station.

Gulf. Drilling has begun on five of these tracts and will continue during 1984.

To date, NEEI has participated in drilling 12 wells on 17 tracts located in the Santa Barbara Channel and the Santa Maria Basin, off the coast of California. NEEI has now purchased additional interests in 16 of these tracts. Results to date have been encouraging and additional drilling is planned in 1984.

NEEI's oil and gas activities are regulated by the Securities and Exchange Commission (SEC). We have filed a proposal with the SEC that would phase out the existing rate regulated pricing policy (a policy that limits NEEI's earnings to a utility return) in favor of non-rate regulated status for this business. If approved, the changes would improve NEEI's prospects for increased returns from our oil and gas activities and could increase the possibility of loss. A more detailed explanation of this proposal appears on page 17.

One of our newest subsidiaries, New England Electric Transmission Corporation (NEET), was formed to provide a major portion of an international transmission link between Hydro-Quebec and electric utilities in New England. In 1983, NEET entered into a credit agreement with a group of nine banks to provide up to $120 million of construction financing.

Agreements have been signed by all major electric utilities in New England providing financial support for this project. Site preparation has begun and completion of the project is scheduled for 1986. Negotiations are currently underway for a second phase to bring additional electric energy from Quebec to New England.

Our newest subsidiary is NEES Energy. This company invests in equipment that will result in significant energy cost savings for commercial and industrial energy consumers, and then shares in these savings for a negotiated time period. We have had a pilot program in operation for about 18 months and expect to invest about $10 million in this activity within three years' time. The return on equity possibilities for NEES Energy look very good. This new company also has great appeal for those who favor utilities doing more to encourage conservation.

An international transmission service company is one of the System's several new business ventures.

New England Electric System and Subsidiaries
Selected Financial Data
Year ended December 31 (millions of dollars, except per share data)

	1983	1982*	1981*	1980*	1979*
Operating revenue:					
Electric sales (excluding fuel cost recovery)	**$ 802**	$ 711	$ 622	$ 550	$ 513
Fuel cost recovery	**507**	482	641	525	361
Other utility revenue	**23**	20	19	15	15
Oil and gas sales	**42**	49	22	11	4
Total operating revenue	**$1,374**	$1,262	$1,304	$1,101	$ 893
Total fuel cost**	**$ 522**	$ 497	$ 651	$ 531	$ 370
Net income	**$ 133**	$ 108	$ 91	$ 76	$ 73
Average common shares	**24,183,447**	23,292,847	22,483,582	21,812,166	21,293,235
Per share data:					
Net income	**$ 5.48**	$ 4.65	$ 4.05	$ 3.50	$ 3.45
Dividends declared	**$ 3.25**	$ 2.95	$2.655	$2.395	$2.235
Total assets	**$3,131**	$2,804	$2,533	$2,243	$1,982
Capitalization:					
Common share equity	**$ 792**	$ 708	$ 644	$ 598	$ 562
Cumulative preferred stock subject to mandatory redemption	**45**	46	22	23	25
Other cumulative preferred stock	**162**	162	162	162	162
Long-term debt	**1,220**	1,065	991	864	806
Total capitalization	**$2,219**	$1,981	$1,819	$1,647	$1,555
Total electric sales (millions of kilowatthours)	**17,025**	16,388	16,582	16,668	16,372
Cost per KWH to ultimate customers (cents)	**7.87**	7.46	7.90	6.66	5.54
System maximum demand (megawatts)	**3,234**	3,171	3,144	3,140	3,183
Number of employees	**5,058**	5,126	5,177	5,220	5,295
Number of customers	**1,102,470**	1,086,094	1,071,722	1,055,472	1,038,794

*Restated (See Note A-1 of Notes to Financial Statements)

**Includes fuel component of purchased electric energy, fuel handling and other related costs

Earnings and dividends

Earnings in 1983 rose 18 percent to $5.48 per average share, compared with $4.65 per average share in 1982. Over the last five years, earnings have increased at a compound growth rate of over 11 percent. The annual dividend rate was raised twice in 1983, and now is at $3.40 per share. The dividend rate has been increased eight times in the last five years. Dividends declared in 1983 of $3.25 represent a 59 percent payout of earnings.

The market price of our common shares was $39 per share at year end, which represents 121 percent of year-end book value.

Operating revenue

Operating revenue in 1983 totaled $1.4 billion, compared with $1.3 billion in 1982. This increase reflects rate increases and a 5.4 percent increase in kilowatthour sales to ultimate customers. The growth in sales was due to weather and the economic recovery.

Operating expenses

Total operating expense in 1983 increased by $86 million. This was due to higher fuel and purchased power costs, and increases in other operation and maintenance expenses.

The higher fuel and purchased power costs resulted principally from the increased sales of electric energy and the need to replace the power that was not produced by the System's largest coal-fired unit due to an extended outage of this unit beginning in late August. The outage was caused by a major turbine failure. Maintenance work done while the unit was out of service contributed to the increase in other operation and maintenance expense as did continued inflationary pressures. (See pages 36 and 37 for a discussion of the effects of inflation.)

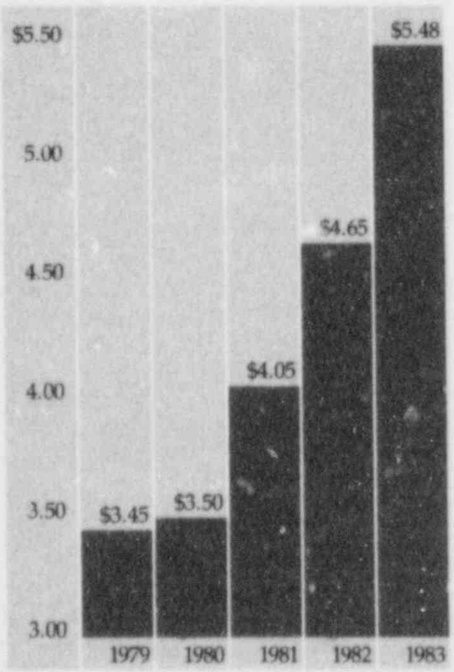
In 1983, the System charged to operations $201 million of federal, state and municipal taxes, an 11 percent increase over 1982.

Other income

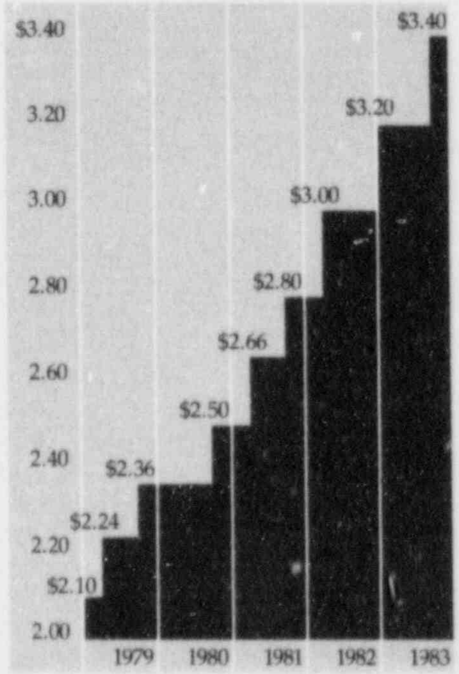
"Other income/(expense) – net" decreased by $24 million in 1983 primarily due to the establishment of a $17 million reserve ($9.2 million after tax). This reserve is part of our proposal to change New England Energy Incorporated's (NEEI) oil and gas activities to a non-rate regulated status. (See "Oil and gas operations" section and Note A-3 of "Notes to Financial Statements.")

In addition, $7 million of the cost of the cancelled Pilgrim 2 nuclear unit was written off during 1983. The recovery of this amount through rates is being challenged in a current rate case before the Federal Energy Regulatory Commission (FERC). (See Note C of "Notes to Financial Statements.")

Earnings
Per average share



Dividends Declared Per Share
Annual rate



Allowance for funds used during construction (AFDC)	AFDC increased by 41 percent in 1983 and 22 percent in 1982. The increase in 1983 was due to the increased level of construction work in progress (CWIP), an increase in the allowed	return on common equity and an increase in the percentage of equity funds used to finance construction. The increase in 1982 was largely due to increased CWIP.

Oil and gas operations

NEEI is currently limited to a utility return on its oil and gas activity. It was permitted to enter and continues in this activity under regulations prescribed by the Securities and Exchange Commission (SEC) under its authority to regulate the non-utility activities of registered utility holding companies.

In view of the current level of NEEI's oil and gas expenditures and the current softness and future uncertainty of oil and gas markets, we have filed a proposal with the SEC that would change the way NEEI accounts for its oil and gas interests. This proposal would phase out the existing rate regulated approach and phase in a non-rate regulated approach. This proposed change would both increase the potential return and the risk associated with this return.

Under the proposed policy and after a transition period estimated to be a few years in duration, profits and losses would flow entirely to NEEI. Although we would not expect to record any earnings on our oil and gas investments during this transition period, we believe the proposed policy is in the best long-term interests of our customers and our shareholders. (See Note A-3 of "Notes to Financial Statements.")

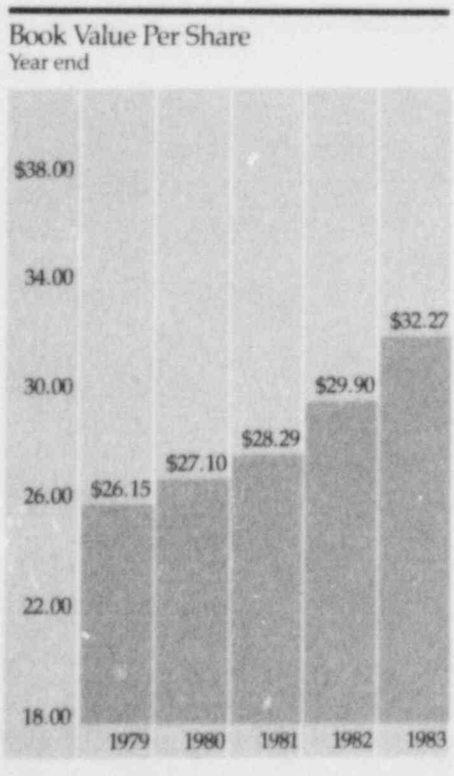
In 1983, NEEI, which had previously been accounted for on the equity method, was consolidated for accounting purposes. We made this change because of the continued growth of our oil and gas operations. This change reduced our equity ratio to 36 percent which is lower than optimum, but we expect to be back above 40 percent in a few years.

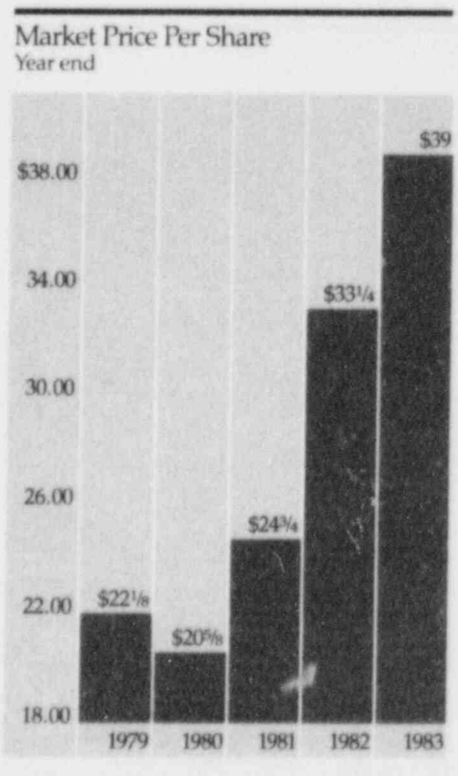
1983 capital expenditures and financing

In 1983, cash construction expenditures for New England Power and the retail companies totaled $231 million. These expenditures included $115 million spent on the Seabrook 1 and 2 and Millstone 3 jointly-owned nuclear units under construction and $42 million for coal conversion at the Salem Harbor Station.

Internally generated cash provided 54 percent of these capital expenditures in 1983, compared with 64 percent in 1982 and 54 percent in 1981.

In March 1983, New England Power issued $90 million of 30-year, 9⅞% tax-exempt pollution control bonds to refund $90 million of maturing tax-exempt bonds. During November and December of 1983, New England Power issued $4.1 million of 5-year, 8% pollution control bonds plus three additional series of 30-year pollution control bonds totaling $112 million at rates ranging from 9⅞% to 10⅝%. In March 1983,





Narragansett Electric retired $9.8 million of maturing 3½% first mortgage bonds.

In 1983, oil and gas exploration and development expenditures totaled $149 million including capitalized interest costs. Sixty million dollars of this program was financed through bank loans and the remainder came principally from internally generated funds.

Our shipping joint venture placed its coal-fired, coal-carrying ship in service in August 1983. This ship was financed by $51 million of U.S. Government guaranteed loans, and equity contributions of $22 million by the joint venture participants. We have a 51 percent interest in the joint venture.

In August 1983, New England Electric Transmission Corporation arranged $120 million in construction financing with a group of nine banks for the direct current/alternating current converter station and a portion of a tie line between the Hydro-Quebec electric system and New England.

New England Electric System raised about $30 million of equity in 1983 through the issuance of new common shares under the System's Dividend Reinvestment and Common Share Purchase Plan, Employee Share Ownership Plan, and Employee Incentive Thrift Plan. This amount compares with $24 million added from these plans in 1982.

1984 capital expenditures and financing

Cash construction expenditures for New England Power and the retail companies are estimated to be $265 million in 1984. This includes $126 million for jointly-owned nuclear units under construction and $40 million for the Salem Harbor coal conversion.

Internally generated cash is expected to provide approximately 55 percent of these needs in 1984, and we estimate that over the next three years internal funds should provide 70 percent of construction requirements. These estimates are based on the inclusion of a portion of CWIP in rate base as allowed by a recent FERC ruling described in the next section.

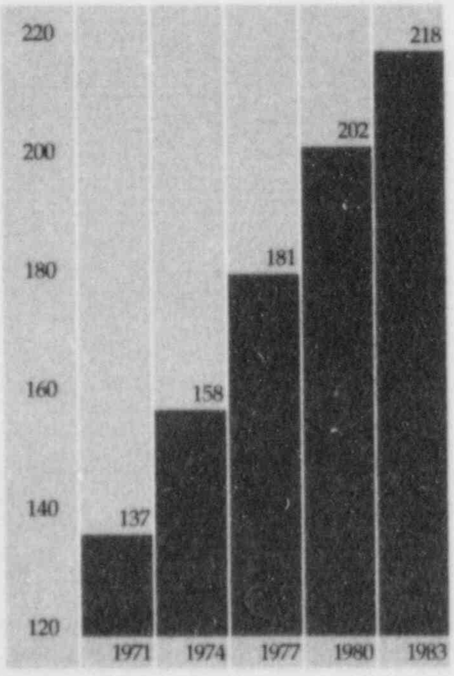
In 1984, expenditures for oil and gas exploration and development are estimated to be $144 million including capitalized interest costs. Internal funds are estimated to provide 60 percent of these needs in 1984 and 75 percent over the next three years.

New England Power plans to issue an additional $10 million of tax-exempt pollution control bonds and $50 million of preferred stock in 1984. In January 1984, Narragansett Electric issued $20 million of 12¼% first mortgage bonds. The proceeds were used in part to purchase $14.2 million of its outstanding 17¾% first mortgage bonds.

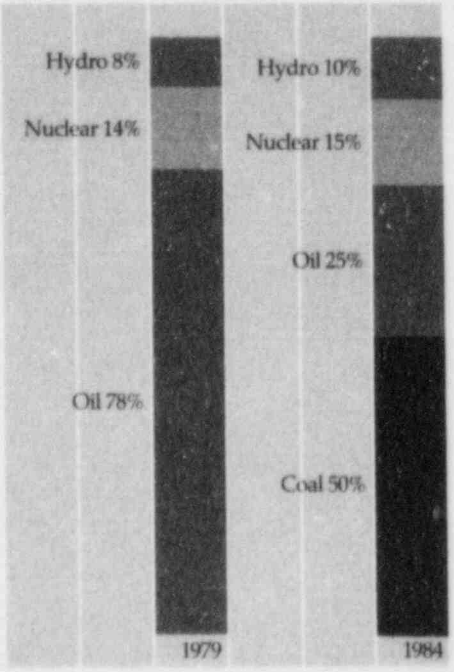
Bond ratings for Narragansett Electric, Massachusetts Electric and New England Power are single A or double A.

No public offering of New England Electric System common shares is contemplated in 1984 or the foreseeable future. However, in 1984, New England Electric System expects to raise about $32 million of equity through the issuance of new common shares under

Customers Served Per Employee



NEES Energy Mix
Percent



the System's Dividend Reinvestment and Common Share Purchase Plan, Employee Share Ownership Plan, and Employee Incentive Thrift Plan.

Rate increases

During 1983, New England Power partially settled a pending wholesale rate case for $30.2 million. The only remaining issue relates to the recovery of costs associated with the cancelled Pilgrim 2 nuclear unit. (See Note C of "Notes to Financial Statements.")

In January 1983, our Massachusetts retail company was allowed to begin collecting a $1.2 million rate increase and, in April 1983, our Rhode Island retail company was granted a $5.3 million rate increase.

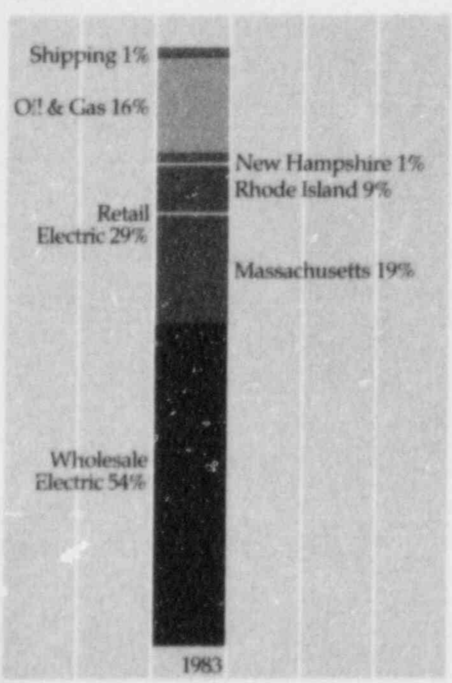
At the wholesale level, we have reached agreement on a $41 million partial settlement of a rate increase which took effect on January 1, 1984. The partial settlement must be approved by the FERC. The settled rate level reflects $43 million due to the inclusion of a portion of CWIP in rate base, which is still at issue and subject to refund. Intervenors are challenging the application of a FERC rule permitting the inclusion of a portion of CWIP in rate base.

In 1983, the FERC issued a ruling which allows up to 50 percent of CWIP to be included in rate base in addition to any CWIP already allowed for fuel conversion projects or pollution control facilities. This rule enables us to recover currently through rates the costs of financing our construction program rather than recording AFDC. Since AFDC is not recorded on CWIP included in rate base, its inclusion has no impact on net income but does result in a substantial increase in cash flow. Legislation is pending in Congress which, if passed, would significantly limit this FERC ruling.

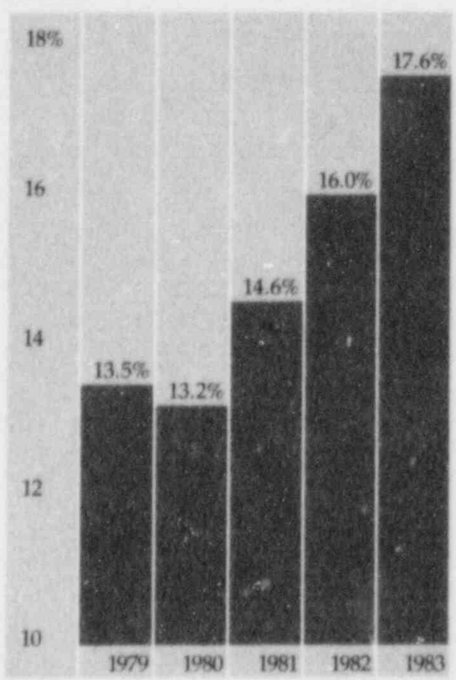
Our Massachusetts and New Hampshire retail companies have been allowed, effective January 1, 1984, to flow through to their customers this latest wholesale rate increase. Our Rhode Island retail company has been allowed to flow through this increase to its customers effective February 7, 1984.

Our Rhode Island retail company filed a $10 million rate increase with the Rhode Island Public Utilities Commission. A final order is expected by April 30, 1984. However, the Commission issued an interim order on February 1, 1984, which requires refunds of amounts earned in excess of the allowed return since April 1983. The total amount of these refunds through December 1983 has yet to be determined but is not expected to exceed $5 million. The order further requires a three month interim rate reduction of approximately $450,000 per month until the final order is issued. This amount is subject to further adjustment based upon actual earnings for the months of February through April 1984. We have appealed this decision to the Rhode Island Supreme Court.

NEES Assets By Function
Percent



Return On Common Equity
Percent



New England Electric System and Subsidiaries
Statements of Consolidated Income
Year ended December 31 (thousands of dollars)

	1983	1982*	1981*
Operating revenue (Note A)	**$1,373,878**	$1,261,860	$1,303,538
Operating expenses:			
Fuel for generation	**408,569**	429,932	537,509
Purchased electric energy:			
Fossil and interchange	**113,918**	66,969	110,284
Nuclear entitlements	**80,228**	70,829	62,985
Other operation	**175,433**	163,523	155,239
Maintenance	**81,743**	62,888	55,568
Depreciation and amortization (Notes A and C)	**133,896**	134,280	87,582
Taxes, other than federal income	**93,127**	90,195	91,155
Federal income taxes (Note B)	**107,468**	89,956	70,653
Total operating expenses	**1,194,382**	1,108,572	1,170,975
Operating income	**179,496**	153,288	132,563
Other income (Note A):			
Allowance for equity funds used during construction	**32,897**	20,953	13,061
Equity in income of nuclear power companies	**6,147**	5,488	4,414
Other income/(expense) – net (Note C)	**(8,811)**	15,143	17,943
Federal taxes on other income – credit (Note B)	**13,809**	4,393	6,336
Operating and other income	**223,538**	199,265	174,317
Interest:			
Interest on long-term debt	**83,015**	78,728	62,566
Other interest	**5,974**	10,100	22,027
Allowance for borrowed funds used during construction, net of deferred federal income taxes of $12,066, $10,618 and $12,134 (Note A)	**(14,228)**	(12,515)	(14,293)
Total interest	**74,761**	76,313	70,300
Income after interest	**148,777**	122,952	104,017
Preferred dividends of subsidiaries	**16,158**	14,627	13,034
Net income	**$ 132,619**	$ 108,325	$ 90,983
Average common shares	**24,183,447**	23,292,847	22,483,582
Per share data:			
Net income	**$ 5.48**	$ 4.65	$ 4.05
Dividends declared	**$ 3.25**	$ 2.95	$ 2.655

*Restated (Note A-1)

The accompanying notes are an integral part of these financial statements.

New England Electric System and Subsidiaries
Consolidated Balance Sheets
At December 31 (thousands of dollars)

		1983	1982*
Assets	*Utility plant, at orig[illegible]al cost* (Note A)	**$2,264,872**	$2,211,369
	Construction work in progress (Note F)	**721,676**	505,734
		2,986,548	2,717,103
	Less accumulated provisions for depreciation and amortization	**712,312**	655,870
	Net utility plant	**2,274,236**	2,061,233
	Proved oil and gas properties, at full cost (Note A)	**538,370**	361,954
	Unproved properties	**86,552**	114,435
		624,922	476,389
	Less accumulated provision for amortization	**126,169**	83,216
	Net oil and gas properties	**498,753**	393,173
	Investments (Note A):		
	Nuclear power companies, at equity	**4[illegible]80**	42,346
	Other subsidiaries, at equity	**11,[illegible]34**	39
	Other investments, at cost	**4,443**	8,413
	Total investments	**60,857**	50,798
	Current assets:		
	Cash, including temporary cash investments of $10,400 in 1982	**2,909**	12,652
	Accounts receivable, less reserves	**160,815**	123,867
	Fuel, materials and supplies, at average cost (Note F)	**84,205**	93,867
	Other current assets	**1,749**	746
	Total current assets	**249,678**	231,132
	Deferred charges and other assets	**4,719**	5,977
	Unamortized property losses (Note C)	**42,988**	62,040
		$3,131,231	$2,804,353
Capitalization and liabilities	*Capitalization* (see accompanying statements):		
	Common share equity	**$ 792,191**	$ 707,923
	Cumulative preferred stock subject to mandatory redemption	**44,342**	45,725
	Other cumulative preferred stock	**162,528**	162,528
	Long-term debt	**1,219,946**	1,065,057
	Total capitalization	**2,219,007**	1,981,233
	Current liabilities:		
	Long-term debt due within one year	**2,805**	102,643
	Short-term debt (Note D)	**77,950**	36,290
	Accounts payable (Note F)	**149,859**	128,255
	Accrued taxes	**53,103**	37,001
	Accrued interest	**24,746**	20,674
	Dividends declared	**22,112**	19,005
	Other current liabilities	**26,445**	15,704
	Total current liabilities	**357,020**	359,572
	Deferred income taxes (Note B)	**407,728**	352,573
	Unamortized investment tax credits (Note B)	**125,507**	106,638
	Other reserves and deferred credits (Note A)	**21,969**	4,337
	Commitments and contingencies (Notes A, C and F)		
		$3,131,231	$2,804,353

*Restated (Note A-1)

The accompanying notes are an integral part of these financial statements.

New England Electric System and Subsidiaries
Consolidated Statements of Capitalization
At December 31 (thousands of dollars)

Common share equity (Note E)	**1983**	1982
Common shares, par value $1 per share		
Authorized – 30,000,000 shares		
Outstanding – 24,549,338 and 23,680,068 shares	**$ 24,549**	$ 23,680
Paid-in capital	**398,886**	369,439
Retained earnings	**368,756**	314,804
Total common share equity	**$792,191**	$707,923

Cumulative preferred stock of subsidiaries		Shares outstanding		**1983**	1982
Company	Par value	**1983**	1982		
Cumulative preferred stock subject to mandatory redemption (Note H)					
New England Power Company					
11.04% Series	$ 25	**800,000**	850,000	**$ 20,000**	$ 21,250
(less shares held at cost for sinking fund)		**(24,900)**	(23,200)	**(658)**	(525)
13.48% Series	100	**250,000**	250,000	**25,000**	25,000
		1,025,100	1,076,800	**44,342**	45,725
Other cumulative preferred stock					
Massachusetts Electric Company					
4.44% Series	100	**75,000**	75,000	**7,500**	7,500
4.76% Series	100	**75,000**	75,000	**7,500**	7,500
7.80% Series	100	**150,000**	150,000	**15,000**	15,000
7.84% Series	100	**200,000**	200,000	**20,000**	20,000
The Narragansett Electric Company					
4 ½% Series	50	**180,000**	180,000	**9,000**	9,000
4.64% Series	50	**150,000**	150,000	**7,500**	7,500
8.00% Series	50	**200,000**	200,000	**10,000**	10,000
New England Power Company					
6.00%	100	**80,140**	80,140	**8,014**	8,014
4.56% Series	100	**100,000**	100,000	**10,000**	10,000
4.60% Series	100	**80,140**	80,140	**8,014**	8,014
4.64% Series	100	**100,000**	100,000	**10,000**	10,000
6.08% Series	100	**100,000**	100,000	**10,000**	10,000
7.24% Series	100	**150,000**	150,000	**15,000**	15,000
8.40% Series	100	**150,000**	150,000	**15,000**	15,000
8.68% Series	100	**100,000**	100,000	**10,000**	10,000
		1,890,280	1,890,280	**162,528**	162,528
Total cumulative preferred stock of subsidiaries (annual dividend requirement $16,082 and $16,224)		**2,915,380**	2,967,080	**$206,870**	$208,253

Long-term debt (Note G)	Company		Rate	Maturity	1983	1982*
Notes	New England Electric System		8⅝%	1987	**$ 17,500**	$ 19,500
	Granite State Electric Company		9½%	1986	**4,000**	4,800
	Massachusetts Electric Company (Note A)		8¾%	1992	**195**	
	Manchester Electric Company (Note A)		8¾%	1992		200
	New England Energy Incorporated (Note G)		variable	1990	**299,500**	239,500
First mortgage bonds	Massachusetts Electric Company	Series D	3⅜%	1985	**8,500**	8,500
		Series F	5 %	1991	**17,490**	17,490
		Series G	4⅜%	1992	**60,000**	60,000
		Series H	4⅝%	1993	**10,000**	10,000
		Series I	5¾%	1996	**10,000**	10,000
		Series J	7⅛%	1998	**15,000**	15,000
		Series K	7⅝%	1999	**15,000**	15,000
		Series M	7¾%	2002	**20,000**	20,000
		Series O	12½%	2012	**25,000**	25,000
	The Narragansett Electric Company	Series D	3½%	1983		9,838
		Series E	3½%	1986	**9,750**	9,750
		Series F	4⅝%	1994	**4,600**	4,600
		Series G	6¾%	1998	**7,500**	7,500
		Series I	7¾%	2002	**7,500**	7,500
		Series J	9 %	2004	**9,700**	9,700
		Series M	13 %	2010	**20,000**	20,000
		Series N	17¾%	2012	**17,650**	20,000
	New England Power Company	Series F	3¼%	1985	**25,000**	25,000
		Series G	4⅜%	1987	**10,000**	10,000
		Series H	4 %	1988	**10,000**	10,000
		Series I	4⅝%	1991	**20,000**	20,000
		Series J	4⅜%	1992	**12,000**	12,000
		Series K	4½%	1993	**10,000**	10,000
		Series L	6⅜%	1996	**10,000**	10,000
		Series M	6⅞%	1997	**15,000**	15,000
		Series N	7⅛%	1998	**20,000**	20,000
		Series O	7⅜%	1998	**20,000**	20,000
		Series P	8⅜%	1999	**15,000**	15,000
		Series R	7⅝%	2002	**25,000**	25,000
		Series S	8⅝%	2003	**40,000**	40,000
		Series T	8⅜%	2003	**40,000**	40,000
		Series U	10⅞%	2005	**72,800**	72,800
General and refunding mortgage bonds	New England Power Company	Series C	9½%	1983		90,000
		Series H	8 %	1988	**4,150**	
		Series A	8⅝%	2007	**50,000**	50,000
		Series B	9½%	2008	**50,000**	50,000
		Series E	16 %	2011	**48,500**	50,000
		Series F	16⅝%	2012	**48,500**	50,000
		Series D	9⅞%	2013	**90,000**	
		Series G	9⅞%	2013	**16,150**	
		Series I	10½%	2013	**16,600**	
		Series J	10⅝%	2013	**79,250**	
		Less funds held by trustee, Series G, H, I and J (Note G)			**(97,473)**	
Unamortized discounts and premiums					**(6,611)**	(978)
Total long-term debt					**1,222,751**	1,167,700
Long-term debt due within one year					**(2,805)**	(102,643)
Long-term debt					**$1,219,946**	$1,065,057

*Restated (Note A-1)

The accompanying notes are an integral part of these financial statements.

New England Electric System and Subsidiaries
Statements of Changes in Consolidated Financial Position
Year ended December 31 (thousands of dollars)

		1983	1982*	1981*
Sources of internally generated funds	*From operations:*			
	Net income	**$ 132,619**	$108,325	$ 90,983
	Depreciation and amortization	**133,896**	134,280	87,582
	Investment tax credits – net	**19,370**	21,534	21,413
	Deferred income taxes	**43,089**	55,951	62,200
	Allowance for funds used during construction, net of deferred federal income taxes of $12,066, $10,618 and $12,134	**(47,125)**	(33,468)	(27,354)
		281,849	286,622	234,824
	Dividends on NEES common shares	**(78,667)**	(68,798)	(59,799)
	Net funds from operations	**203,182**	217,824	175,025
Sources of externally generated funds	*From financing transactions:*			
	NEES common shares	**30,332**	24,651	14,676
	Long-term debt – issues	**168,677**	177,660	190,666
	Long-term debt – retirements	**(107,993)**	(63,062)	(26,910)
	Preferred stock – issues		25,000	
	Preferred stock – retirements	**(1,250)**	(1,250)	(1,250)
	Changes in short-term debt	**41,660**	(49,085)	(10,680)
	Net funds from financing transactions	**131,426**	113,914	166,502
	Sources of funds	**334,608**	331,738	341,527
Applications of funds	Construction expenditures, excluding allowance for funds used during construction	**231,068**	206,726	223,519
	Oil and gas exploration and development	**148,533**	159,066	143,331
	Investments	**10,059**	1,689	237
	Applications of funds	**389,660**	367,481	367,087
		$ (55,052)	$(35,743)	$(25,560)
Increase/(Decrease) in working capital and other items	Cash	**$ (9,743)**	$ 5,516	$(20,777)
	Accounts receivable	**36,948**	(12,215)	(21,006)
	Fuel, materials and supplies	**(9,662)**	(1,619)	12,093
	Other current assets	**1,003**	218	(814)
	Accounts payable	**(21,604)**	7,691	1,344
	Current liabilities – other	**(34,022)**	(39,450)	(752)
	Other items	**(17,972)**	4,116	4,352
		$ (55,052)	$(35,743)	$(25,560)

*Restated (Note A-1)

New England Electric System and Subsidiaries
Statements of Consolidated Retained Earnings
Year ended December 31 (thousands of dollars)

	1983	1982	1981
Retained earnings at beginning of year	**$ 314,804**	$275,277	$244,093
Net income	**132,619**	108,325	90,983
Cash dividends on common shares	**(78,667)**	(68,798)	(59,799)
Retained earnings at end of year	**$ 368,756**	$314,804	$275,277

The accompanying notes are an integral part of these financial statements.

Note A
Significant accounting policies

1. Basis of consolidation

The consolidated financial statements include the accounts of New England Electric System (NEES) and all subsidiaries except NEES Energy, Inc. and New England Electric Transmission Corporation (NEET), which are recorded at equity. NEES Energy is a company involved in energy conservation services whose operations are different from the consolidated group. NEET is a transmission service company which is building facilities to transmit hydroelectric power between the Hydro-Quebec electric system and New England. NEET has entered into agreements with participating New England utilities, including New England Power Company (NEP), providing for the joint financial support of the facilities. Four minority-owned nuclear power companies and a shipping joint venture are also valued at equity. All significant intercompany transactions between consolidated subsidiaries have been eliminated.

New England Energy Incorporated (NEEI), an oil and gas exploration and fuels subsidiary, which had previously been accounted for on the equity method, is now being consolidated for accounting purposes. Due to the increased level of NEEI's operations, the System adopted this consolidation policy to more clearly disclose its operating results and financial position. Accordingly, the prior years' financial statements and selected quarterly financial information have been restated to reflect this change, which had no impact on net income.

On July 1, 1983, NEES completed an exchange offer for the outstanding shares of Manchester Electric Company and merged it into Massachusetts Electric Company. The NEES common shares issued in 1982 and 1983 as part of the exchange offer were recorded at the underlying book value of Manchester Electric (see Note E).

2. System of accounts

The accounts of NEES and its utility subsidiaries are maintained in accordance with the Uniform System of Accounts prescribed by regulatory bodies having jurisdiction.

3. Oil and gas operations

NEEI is engaged in various activities relating to fuel supply for the NEES companies as authorized by the Securities and Exchange Commission (SEC). These activities presently include (a) participation (principally through a partnership with a non-affiliated oil company) in domestic oil and gas exploration, development and production, (b) sale of fuel oil purchased in the open market to NEP and (c) operation, through a joint venture, of a coal-fired, coal-carrying ship.

In accordance with an intercompany pricing policy (Pricing Policy) approved by the SEC, NEEI follows the full cost accounting method. Based upon this Pricing Policy, NEEI is considered to be a rate regulated company, and is not subject to certain limits, applicable to non-regulated companies, on the amount of capitalized costs of oil and gas property. NEEI capitalizes all costs incurred in connection with its fuel exploration activities, including certain costs not capitalized by non-regulated companies. The costs capitalized by NEEI include interest paid to banks and a return paid to NEES representing a utility return on its approximate $40 million investment in NEEI. In 1983, 1982 and 1981, NEES recorded income of $6.4 million, $6.9 million and $6.5 million after tax in "Other income" associated with its investment in NEEI. However, the amount recorded in 1983 was offset by the reserve described on the following page.

Under the terms of the Pricing Policy, capitalized costs relating to wells and leases which have been determined to be either commercial or non-commercial are included in "Proved oil and gas properties, at full cost," and are being amortized using the unit of production method. To date, all NEEI production has been sold to non-affiliated third parties. Any excess (or deficiency) in the proceeds from the sale of NEEI production, after recovery of amortization and production costs, is passed on to (or recovered from) NEP through the sale to NEP of oil purchased by NEEI in the open market. From NEEI's inception, proceeds have exceeded costs by over $8.7 million. These savings have been passed on to NEP and ultimately to the customers of the System's retail companies. To date, there have been no losses passed on to NEP.

The System has made a proposal to the SEC providing for the modification and the phasing out and eventual termination of the Pricing Policy and the conversion of NEEI to a non-rate regulated company. If the proposal were accepted, NEES would not expect to earn any return on its investment in NEEI over the next few years to allow the buildup of the reserve described below. In addition, consistent with this proposal, a $17 million reserve ($9.2 million after tax including the $6.4 million described on the previous page) was established in 1983, and will be increased (or decreased) by regulated oil and gas operating profits (or losses) of NEEI. Upon termination of the Pricing Policy, this reserve would be used to offset the accounting effect of NEEI being converted from a rate regulated to a non-rate regulated company. Based upon current proved reserves and oil and gas prices, the termination of the Pricing Policy as of December 31, 1983 would have resulted in an approximate $70 million after-tax write down of NEEI's assets. However, under the System's proposal, termination of the Pricing Policy will not occur until the reserve is sufficient to offset any required write down, at which time NEEI will become entirely non-rate regulated. (See Oil and gas operations section of "Financial Review.")

NEEI's costs incurred and capitalized in connection with its oil and gas exploration and development activities are as follows:

Year ended December 31 (thousands of dollars)	**1983**	1982	1981
Leases	**$ 50,237**	$ 57,561	$ 53,448
Exploration	**48,935**	70,067	48,694
Development	**41,583**	28,622	37,359
Other	**7,778**	2,816	3,830
Total	**$148,533**	$159,066	$143,331

Included in the above totals are $40,749,000, $41,916,000 and $32,236,000, respectively, of costs of capital for the years 1983, 1982 and 1981.

The following table presents costs by category and the years in which they were incurred. These costs are included in the "Consolidated Balance Sheets" under the caption "Unproved properties."

(thousands of dollars)	1983	1982	1981	Prior years	**Total**
Acquisition costs	$29,107	$24,248	$7,205	$5,057	**$65,617**
Exploration costs	13,382	48	116		**13,546**
Development costs	7,192	197			**7,389**
Total	$49,681	$24,493	$7,321	$5,057	**$86,552**

NEEI estimates that the majority of these costs will be included in proved oil and gas properties by December 31, 1985. Approximately 60 percent of the total acquisition costs relate to leases on which drilling had not yet begun as of December 31, 1983. The remainder of the acquisition costs and all of the exploration and development costs relate to wells which may be either currently drilling, or completed, but which have not been determined to be either commercial or non-commercial.

4. Revenue

The utility subsidiaries record revenue as billed on a cycle billing basis. No revenue is recorded for electricity that has been delivered but not billed. NEEI recognizes revenue from sales to third parties when received from its partners.

The "Operating revenue" included in the "Statements of Consolidated Income" is composed of the following:

Year ended December 31 (thousands of dollars)	1983	1982*	1981*
Electric sales (excluding fuel cost recovery)	**$ 802,166**	$ 710,771	$ 622,046
Fuel cost recovery	**507,380**	481,396	640,863
Other utility revenue	**22,436**	20,482	19,192
Oil sales	**13,312**	12,891	6,963
Gas sales	**28,584**	36,320	14,474
Total operating revenue	**$1,373,878**	$1,261,860	$1,303,538

*Restated (Note A-1)

5. Utility plant

The utility subsidiaries capitalize, as part of construction costs, an item called allowance for funds used during construction (AFDC), which represents the composite interest and equity costs of capital funds used to finance that portion of construction costs not eligible for inclusion in rate base. AFDC is recognized as a cost of "Utility plant." Accordingly, AFDC is capitalized in the same manner as construction labor and material costs, with offsetting credits to "Other income" and "Interest." This method is in accordance with an established regulatory approved rate-making practice under which a utility is permitted a return on, and the recovery of, these capital costs through their ultimate inclusion in the rate base and in the provision for depreciation. The composite rates approximate the pre-tax costs of funds (11.7 percent in 1983, 11.1 percent in 1982 and 12.5 percent in 1981). Consistent with past regulatory approvals, tax benefits on the borrowed funds component of AFDC are deferred and amortized over the estimated lives of the property giving rise to the tax benefits.

In the "Statements of Consolidated Income," the borrowed funds component of AFDC is presented net of related deferred federal income taxes as detailed below. An additional effect of this presentation is the allocation of a credit of equal amount, resulting from the deductibility of capitalized interest expense, to "Other income: Federal taxes on other income – credit."

Year ended December 31 (thousands of dollars)	1983	1982	1981
Allowance for borrowed funds used during construction	**$ 26,294**	$ 23,133	$ 26,427
Related deferred federal income taxes (Note B)	**(12,066)**	(10,618)	(12,134)
Allowance for borrowed funds used during construction – net	**14,228**	12,515	14,293
Allowance for equity funds used during construction	**32,897**	20,953	13,061
Total allowance for funds used during construction – net	**$ 47,125**	$ 33,468	$ 27,354

Costs of current repairs and minor replacements of plants and properties are charged to maintenance expense accounts as incurred. Plant, retired or otherwise disposed of, together with costs of removal less salvage, is charged to "Accumulated provisions for depreciation and amortization."

6. Depreciation and amortization

The depreciation and amortization expense included in the "Statements of Consolidated Income" is composed of the following:

Year ended December 31 (thousands of dollars)	1983	1982*	1981*
Depreciation	**$ 71,958**	$ 69,585	$61,140
Amortization:			
Oil and gas properties	**42,953**	47,670	20,342
Property losses	**12,453**	11,650	6,100
Oil Conservation Adjustment (OCA)	**6,532**	5,375	
Total depreciation and amortization expense	**$133,896**	$134,280	$87,582

*Restated (Note A-1)

Depreciation is provided annually on a straight-line basis in amounts at least sufficient to amortize the undepreciated cost of depreciable utility properties over their estimated remaining service lives.

Oil and gas property amortization is based on a percentage calculated by dividing each year's production by total estimated proved and probable reserves (unit of production method) (see Note A-3).

The amortization of property losses relates to cancelled nuclear power plants (see Note C).

The Oil Conservation Adjustment (OCA) amortization represents the net amount recovered from customers for the amortization of certain coal conversion facilities. This current charge to customers (OCA) was designed to allow the accelerated recovery of expenditures for coal conversion facilities at the Salem Harbor Station, both during and after the conversion period, out of savings from burning coal. In the event that changes in circumstances prevent such accelerated recovery, the OCA provisions allow NEP to revert to traditional means of cost recovery.

The provisions for depreciation as a percentage of weighted average depreciable property by plant category are as follows:

	1983	1982	1981
Hydro production	**1.5%**	1.5%	1.5%
Thermal production	**4.2%**	4.2%	3.9%
Other	**3.2%**	3.2%	3.2%
Combined	**3.4%**	3.4%	3.2%

7. Retirement plans

The funded plans are noncontributory and provide retirement benefits for substantially all employees. Current service costs are funded annually; prior service costs are being funded over a 20-year period; actuarial gains and losses are being amortized over a 10-year period. Total pension expense, including the amortization of prior service costs and of actuarial gains and losses, was $6,761,000 in 1983, $7,816,000 in 1982 and $6,459,000 in 1981.

The decrease in pension expense in 1983 is principally due to actuarial gains on plan investments, partially offset by a one time supplemental payment to retirees. The increase in pension costs in 1982 was due to wage and salary increases and a revision of plan provisions which increased benefits for service in excess of 30 years.

The comparison, as shown on the following page, of the market value of pension fund assets with the actuarial present value of accumulated plan benefits is provided as a measure of the financial condition of the plans if they had been terminated as of April 1, 1983 and 1982. The comparison shows that the plans' net assets exceed the actuarial present value of all plan benefits earned to date.

At April 1 (thousands of dollars)	1983	1982
Actuarial present value of accumulated plan benefits:		
Vested	**$174,433**	$142,688
Non-vested	**5,071**	3,920
Total	**$179,504**	$146,608
Net assets available for plan benefits	**$278,638**	$240,948

The above calculation of the actuarial present value of accumulated plan benefits used an investment return of 8.7 percent in 1983 and 10.0 percent in 1982 which represents a weighted average of the interest rates used by the Pension Benefit Guaranty Corporation (a federal insurer of pension benefits); the above calculation does not reflect any future salary increases.

Note B Federal income taxes

Total federal income taxes in the "Statements of Consolidated Income" are as follows:

Year ended December 31 (thousands of dollars)	1983	1982*	1981*
Income taxes charged to operations	**$107,468**	$89,956	$70,653
Income taxes credited to "Other income"	**(13,809)**	(4,393)	(6,336)
Income taxes netted against AFDC-borrowed funds (Note A)	**12,066**	10,618	12,134
Total federal income taxes	**$105,725**	$96,181	$76,451

Total federal income taxes, as shown above, consist of the following components:

Year ended December 31 (thousands of dollars)	1983	1982*	1981*
Current income taxes	**$ 35,246**	$12,414	$(14,360)
Deferred income taxes	**51,109**	62,233	69,398
Investment tax credits – net	**19,370**	21,534	21,413
Total federal income taxes	**$105,725**	$96,181	$ 76,451

Investment tax credits of subsidiaries are deferred and amortized over the estimated lives of the property giving rise to the credits. Investment tax credits – net principally reflects reductions in current federal income taxes attributable to investment tax credits which have been deferred.

Certain subsidiaries, with regulatory approval, have adopted comprehensive interperiod tax allocation (normalization). The following table details the components of the deferred federal income taxes of these subsidiaries:

Year ended December 31 (thousands of dollars)	1983	1982*	1981*
Allowance for borrowed funds used during construction** (Note A)	**$ 12,066**	$ 10,618	$ 8,669
Excess tax depreciation and amortization	**24,006**	21,836	15,398
Property losses (Note C)			19,214
Oil and gas costs capitalized for book purposes and deducted for tax purposes	**53,761**	58,615	42,121
NEEI reserve (Note A-3)	**(7,732)**		
Other	**(1,571)**	616	(375)
Reversal of prior year tax deferrals	**(29,421)**	(29,452)	(15,629)
Deferred federal income taxes	**$ 51,109**	$ 62,233	$ 69,398

*Restated (Note A-1)
**Excludes $3,465,000 in 1981 transferred to property losses.

Total federal income taxes differ from the amounts computed by applying the statutory tax rate to income before taxes. The reasons for the differences are as follows:

Year ended December 31 (thousands of dollars)	1983	1982*	1981*
Computed tax at statutory rate of 46 percent	**$117,071**	$100,801	$83,015
Increases/(reductions) in tax resulting from:			
Allowance for equity funds used during construction	**(15,133)**	(9,638)	(6,008)
Book versus tax depreciation not normalized	**6,751**	7,112	4,829
Amortization of investment tax credits	**(3,499)**	(3,322)	(2,644)
All other differences	**535**	1,228	(2,741)
Total federal income taxes	**$105,725**	$ 96,181	$76,451
Effective federal income tax rate	**41.5%**	43.9%	42.4%

*Restated (Note A-1)

Federal income tax returns for NEES and its subsidiaries have been examined and reported on by the Internal Revenue Service through 1978.

Note C Property losses

Included in the "Consolidated Balance Sheets" under "Unamortized property losses" are the unamortized portions of the costs of three nuclear generating projects cancelled during the planning stage.

In December 1979, NEP cancelled plans to build two nuclear generating units in Charlestown, Rhode Island. Commencing June 1, 1980, NEP began to amortize and to recover through rates this loss of approximately $28 million ($17 million after tax) over a five-year period. The state regulatory commissions have approved the pass-through of these costs to the System's retail customers.

On December 31, 1980, a non-affiliated company announced cancellation of plans to build two nuclear generating units in Montague, Massachusetts. As a part-owner, NEP had expended approximately $5 million ($3 million after tax) in the Montague units. Commencing March 1, 1982, NEP began to amortize and recover through rates these costs over a five-year period. The state regulatory commissions have approved the pass-through of these costs to the System's retail customers.

On September 23, 1981, a non-affiliated company announced cancellation of plans to build the Pilgrim 2 nuclear generating unit in Plymouth, Massachusetts. As a part-owner, NEP had expended about $50 million ($29 million after tax) in the unit. Commencing March 1, 1982, NEP began to amortize the loss over eight years. The amount of the loss that ultimately will be recovered in rates is subject to the outcome of contested proceedings before the Federal Energy Regulatory Commission (FERC). However, the FERC has allowed NEP to recover through rates, subject to refund, the full amount of the undisputed portion of the loss and part of the disputed portion. The state commissions have also allowed the pass-through of these amounts to the System's retail customers, subject to refund pending resolution of the matter at the FERC. Hearings on this issue before the FERC concluded in November 1983. Because the final outcome of this issue is substantially in doubt, NEP wrote off the disputed portion of the unamortized project cost in November 1983 and, in addition, established a reserve for possible refund of the small amount of the disputed portion which has already been recovered from customers. This reduced income by $7.3 million ($4.6 million after tax).

Note D
Short-term borrowing

NEES and its subsidiaries have lines of credit totaling $138 million with a number of banks. There are no formal compensating balance arrangements, although operating balances maintained by the subsidiaries provide compensation for certain lines of credit and fees are paid in lieu of compensating balances on other lines of credit.

Note E
Share capital of New England Electric System

NEES issued and sold additional common shares, $1 par value, in 1983, 1982 and 1981, pursuant to a Dividend Reinvestment and Common Share Purchase Plan, an Employee Share Ownership Plan and an Employee Incentive Thrift Plan. NEES also issued common shares in December 1982 and during the first six months of 1983 in exchange for common stock of Manchester Electric (see Note A).

	1983		1982		1981	
(thousands of dollars)	Par	Paid-in capital	Par	Paid-in capital	Par	Paid-in capital
Dividend Reinvestment and Common Share Purchase Plan	**$614**	**$20,436**	$617	$15,645	$459	$ 9,214
Employee Share Ownership Plan	**168**	**5,972**	206	5,375	158	3,222
Employee Incentive Thrift Plan	**86**	**3,023**	81	2,115	75	1,548
Acquisition of Manchester Electric	**1**	**32**	19	593		
Premiums on preferred stocks – issues				18		
Premiums on preferred stocks – retirements		**(16)**		(16)		(16)
	$869	**$29,447**	$923	$23,730	$692	$13,968

Note F
Commitments and contingencies

(1) The consolidated utility subsidiaries' construction expenditures, excluding AFDC, are estimated to be $265 million in 1984. The oil and gas subsidiary's expenditures, including costs of capital, for its exploration and development programs in 1984 are estimated to be $144 million. At December 31, 1983, substantial commitments had been made relative to these construction and exploration and development programs.

(2) Under NEP's current arrangements for fuel supply, certain of its fuel contracts are assigned to a non-affiliate which purchases fuel under these contracts and in the open market, holds the fuel in inventory, as owner, and sells the fuel to NEP at the time of burn at prices reflecting its cost of the fuel. In addition, NEP pays monthly charges to cover the non-affiliate's services. The agreement can be terminated on three months' notice. Fuel inventory held by the non-affiliate for NEP amounted to $31,316,000 at December 31, 1983. This amount is included in the "Consolidated Balance Sheets" in "Fuel, materials and supplies" and in "Accounts payable."

(3) NEP is a joint owner with other New England utilities of three nuclear units now under construction. The lead owners' estimated completion dates have been extended substantially and their estimates of the costs of these units have increased substantially during construction. Regulatory proceedings in connection with financing, licensing, or other matters could result in further delays or possibly prevent completion of the units. In addition, financial or other factors could result in one or more of the units being cancelled or prevent one or more of the joint owners from meeting commitments to pay their share of construction costs, which could also delay or prevent completion. The actual construction costs associated with these units and the amount of AFDC to be capitalized as part of their costs could be affected significantly by further changes in completion dates of the units and other factors.

NEP has concluded that its ownership of a share of Seabrook 2 is no longer in the best interest of its customers. Accordingly at a joint owners' meeting on May 6, 1983, NEP introduced a resolution to cancel Seabrook 2. The motion did not carry. NEP voted in favor of other resolutions to cancel Seabrook 2 on September 8, 1983, and March 1, 1984, but these too were defeated. However, on September 8, 1983, the owners unanimously passed a resolution to reduce expenditures on Seabrook 2 to the lowest feasible level until fuel loading of Seabrook 1, unless Seabrook 2 is cancelled before then. As a result, in September 1983, NEP stopped recognizing in its income statement the AFDC on Seabrook 2. This reduced 1983 income by $3 million ($2.4 million after tax).

NEP expenditures through December 31, 1983, and estimated cost of these units follow:

Unit	Location	Estimated date of operation	Megawatt capacity Total	Megawatt capacity NEP portion	Expenditures through December 31, 1983 (millions of dollars)	Estimated completed cost[d] (millions of dollars)
Seabrook 1	N.H.	2/87[a]	1150	115	$258[b][c]	$ 475[a][b][c]
Seabrook 2	N.H.	12/90[a]	1150	115	76[b]	390[a][b]
Millstone 3	Conn.	5/86	1150	140	288	435
					$622	$1,300

(a) On March 1, 1984, the lead owner released new cost and date of operation projections reflecting a substantial increase in the costs of Seabrook 1 and 2. Independent consultants to the joint owners indicated that upward adjustments to the Seabrook 1 projections released by the lead owner are necessary to arrive at a revised cost and a revised date of operation that have a 50 percent chance of being met. The cost and date of operation estimates for Seabrook 1 in the above table are based on the projections as adjusted by the consultants. The estimates for Seabrook 2 in the above table are based on the projections released by the lead owner. However, NEP believes there is a substantial possibility that Seabrook 2 will not be completed.

(b) Based on approximate allocations between units.

(c) Includes facilities common to Seabrook 1 and Seabrook 2.

(d) Excludes cost of initial nuclear fuel cores, estimated at $35 million for Seabrook 1 and 2 and $20 million for Millstone 3.

(4) In addition to the regulatory requirements discussed above with respect to nuclear facilities, the utility subsidiaries, in common with other utilities, are subject generally to those and other safety and environmental regulatory requirements, which may result in the modification or delay in, or cancellation of construction or operation of their existing or planned facilities. Any of these events could result in increased costs to these subsidiaries and their customers.

Note G
Long-term debt

The indentures relating to mortgage bonds of utility subsidiaries require sinking fund installments totaling $6,930,000 in 1984, $6,680,000 in 1985, $7,695,000 in 1986, $7,595,000 in 1987 and $7,495,000 in 1988. The issuers of the mortgage bonds may elect to satisfy these installments in cash, in bonds or by evidencing to the trustees additional property in amounts as provided therein.

The aggregate cash payments required on long-term debt and to retire maturing mortgage bonds by NEES and its utility subsidiaries for the years ended December 31, 1984 through 1988, are as follows: $2,805,000 in 1984, $36,305,000 in 1985, $14,155,000 in 1986, $21,505,000 in 1987 and $14,155,000 in 1988.

The annual interest requirement on the outstanding long-term debt of NEES and its utility subsidiaries at December 31, 1983 is $93,727,000.

NEP issued an aggregate of $116,150,000 of Series G, H, I and J general and refunding mortgage bonds in November and December of 1983 to secure pollution control revenue bonds issued by the Massachusetts Industrial Finance Agency. The Industrial

Development Authority of the State of New Hampshire and the City of Salem, Massachusetts, through its Industrial Development Financing Authority. At December 31, 1983, $97,473,000 of the proceeds from the issues were held by a trustee in construction funds to be disbursed as qualified construction costs are incurred by NEP.

In 1981, NEEI entered into a revolving credit and term loan agreement with two banks providing for borrowings of up to a total of $400 million in two different portions. The first portion, secured by a pledge of NEEI's rights with respect to NEP under the Pricing Policy (see Note A-3), operates as a revolving credit through December 31, 1985, subject to extension to December 31, 1986. At the end of the revolving credit period, it converts to a 5-year term loan with equal quarterly amortization. The second portion, secured by a mortgage on selected oil and gas properties, is a revolving credit through June 30, 1985, subject to extension to December 31, 1986. At the end of the revolving credit period, it converts to a 5½-year term loan to be repaid with net revenue from the mortgaged properties. The total amount of borrowings that may be outstanding under both portions of the agreement at any one time is a function of the value assigned to the currently mortgaged oil and gas properties. NEEI is also required to maintain a minimum net worth of $40 million, including subordinated notes payable to NEES. At December 31, 1983, interest rates on borrowings of $299.5 million ($253 million under the first portion and $46.5 million under the second portion) ranged from 10.25 percent to 11.56 percent. Based on the oil and gas properties mortgaged at December 31, 1983, NEEI had additional borrowing capacity of $14 million under this agreement.

Note H
Redeemable preferred stock

On September 1 of each year, NEP's 11.04% Series of cumulative preferred stock is subject to a mandatory annual sinking fund requirement for the retirement of 50,000 shares per year at $26.285 per share. At December 31, 1983, 1982 and 1981, 24,900, 23,200 and 56,500 shares, respectively, had been purchased in the open market at a cost of $658,000, $525,000 and $1,288,000 and were held in treasury in anticipation of the annual sinking fund requirement. NEP also has $25 million of 13.48% cumulative preferred stock outstanding, which is subject to a mandatory annual sinking fund requirement for the retirement of 12,500 shares per year at $100.75 per share commencing on September 1, 1987.

Report of Independent Certified Public Accountants

To the Board of Directors and Shareholders of New England Electric System:

We have examined the consolidated balance sheets and the consolidated statements of capitalization of New England Electric System and subsidiaries as of December 31, 1983 and 1982 and the related consolidated statements of income, 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 consolidated financial statements referred to above present fairly the consolidated financial position of New England Electric System and subsidiaries as of December 31, 1983 and 1982, and the consolidated results of their operations and changes in their consolidated 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 after restatement for the change in the method of accounting, with which we concur, to consolidate New England Energy Incorporated, as described in Note A to the financial statements.

Coopers & Lybrand

Boston, Massachusetts
January 19, 1984

New England Electric System and Subsidiaries
Supplementary Information on Oil and Gas Activities
(unaudited)

The estimates of NEEI's proved reserves and proved developed reserves of oil and gas, all located within the United States, and changes to the estimated proved reserves for 1981, 1982 and 1983 were as follows:

	Crude oil and condensate (thousands of Bbl)	Natural gas (thousands of MCF)
Proved reserves as of December 31, 1980	1,583	47,103
Revisions of previous estimates	222	(117)
Extensions, discoveries and other additions	697	11,356
Production	(268)	(5,727)
Proved reserves as of December 31, 1981	2,234	52,615
Revisions of previous estimates	34	3,846
Extensions, discoveries and other additions	549	16,171
Production	(481)	(11,101)
Proved reserves as of December 31, 1982	2,336	61,531
Revisions of previous estimates	472	(243)
Extensions, discoveries and other additions	985	17,290
Production	(493)	(8,559)
Proved reserves as of December 31, 1983	3,300	70,019
Proved developed reserves:		
December 31, 1980	1,103	26,840
December 31, 1981	1,641	39,789
December 31, 1982	1,842	38,378
December 31, 1983	2,090	38,288

Proved reserves are estimated quantities of crude oil, condensate and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known oil and gas reservoirs under existing economic and operating conditions. Proved developed reserves are those proved reserves reasonably expected to be recovered through existing wells with existing equipment and operating methods.

The estimates of NEEI's proved and proved developed reserves were prepared by independent petroleum engineering consultants, Keplinger and Associates, Inc. of Dallas, Texas. The reserves are estimates only and should not be construed as exact quantities. Future conditions may affect the recovery of estimated reserves.

New England Electric System and Subsidiaries
Supplementary Information on Business Segments
(unaudited)

The consolidated group operates in two principal domestic industry segments.

	(thousands of dollars)	Electric	Oil and gas	Consolidated
Year ended December 31, 1983	Operating revenue	$1,331,982	$ 41,896	$1,373,878
	Depreciation and amortization	90,943	42,953	133,896
	Other operating expenses	949,758	3,260	953,018
	Federal income taxes	111,785	(4,317)	107,468
	Operating income	179,496	-0-	179,496
	Interest expense	62,695		62,695
	Income from equity investments	6,204		6,204
	Other income/(expense)-net	12,314	(2,700)	9,614
	Net income/(loss)	$ 135,319	$ (2,700)	$ 132,619
	Total assets	$2,632,030	$499,201	$3,131,231
	Investments at equity	$ 56,414		$ 56,414
	Capital expenditures	$ 231,068	$148,533	$ 379,601
Year ended December 31, 1982	Operating revenue	$1,212,649	$ 49,211	$1,261,860
	Depreciation and amortization	86,610	47,670	134,280
	Other operating expenses	882,217	2,119	884,336
	Federal income taxes	90,534	(578)	89,956
	Operating income	153,288	-0-	153,288
	Interest expense	65,695		65,695
	Income from equity investments	5,427		5,427
	Other income-net	15,305		15,305
	Net income	$ 108,325	$ -0-	$ 108,325
	Total assets	$2,411,047	$393,306	$2,804,353
	Investments at equity	$ 42,385		$ 42,385
	Capital expenditures	$ 206,726	$159,066	$ 365,792
Year ended December 31, 1981	Operating revenue	$1,282,101	$ 21,437	$1,303,538
	Depreciation and amortization	67,240	20,342	87,582
	Other operating expenses	1,011,455	1,285	1,012,740
	Federal income taxes	70,843	(190)	70,653
	Operating income	132,563	-0-	132,563
	Interest expense	58,166		58,166
	Income from equity investments	4,414		4,414
	Other income-net	12,172		12,172
	Net income	$ 90,983	$ -0-	$ 90,983
	Total assets	$2,250,723	$281,972	$2,532,695
	Investments at equity	$ 40,274		$ 40,274
	Capital expenditures	$ 223,519	$143,331	$ 366,850

NEES entered into its oil and gas operations in order to develop and maintain reliable and accessible fuel sources. Any excess (or deficiency) in the proceeds from the sale of NEEI production, after recovery of amortization and production costs, is passed on to (or recovered from) NEP. (See Note A-3 of "Notes to Financial Statements" for an explanation of the Pricing Policy.) As a result, the oil and gas segment has no operating income.

In 1983, a reserve was established as described in Note A-3 of "Notes to Financial Statements." Of this $17 million reserve, $5 million ($2.7 million after tax) is shown above as a deduction from "Other income/(expense)-net" in the oil and gas segment.

New England Electric System and Subsidiaries
Supplementary Information on the Estimated Impact of Inflation
(unaudited)

The following information depicts the impact of inflation on the System's income and assets. This material should be treated with caution as no method yet devised does this job clearly and simply. Rather, inflation information is still in the development stage.

The numbers in the following tables have been prepared under the guidelines established by Financial Accounting Standards Board Statement No. 33. This standard requires two separate approaches to measuring the impact of inflation: the "constant dollar" approach and the "current cost" approach.

The "constant dollar" approach uses the Consumer Price Index (CPI) to adjust the historical figures actually recorded on a company's books to reflect the effects of general inflation.

The "current cost" approach attempts to address the impact of specific inflation on an industry. For this purpose, the System's historical cost of utility plant has been adjusted by using the Handy-Whitman Index of Public Utility Construction Costs. The current cost of our oil and gas properties has been estimated by applying relevant oil and gas industry indices to historical costs.

Both approaches attempt to show the System's figures as if all of its utility plant (generating stations, transmission lines, etc.) had been built at 1983 costs and its oil and gas properties had been developed at 1983 costs, but the two approaches get there by slightly different routes.

There are obvious weaknesses in both of these approaches, particularly with regard to regulated companies like those in NEES. In addition, due to the uncertain nature of oil and gas exploration, the "current cost" of our oil and gas properties is presented as a reasonable estimate and not a precise amount. However, these weaknesses should not detract from the conclusion pointed out by both approaches: inflation has reduced the value of shareholder earnings and the System's dividends.

In Table 1, four adjustments are shown. These adjustments are explained below.

Adjustment 1. Depreciation and amortization expense

An adjustment is made to historical depreciation and amortization expense to show the larger amount the System would need to expense in 1983 if the cost of utility plant and oil and gas properties were adjusted to show 1983 inflated values. These adjusted depreciation and amortization expense amounts were determined by applying System depreciation and amortization rates to the 1983 estimated "constant dollar" and the "current cost" values.

Income tax expense has not been adjusted because only historical depreciation and amortization are currently deductible for tax purposes.

Adjustment 2. Monetary assets and liabilities

Monetary assets (cash and accounts receivable, for example) and monetary liabilities (such as obligations to repay money borrowed) are adjusted for inflation. The former lose value due to the erosion of their purchasing power. The latter gain in value as these obligations will be paid off in cheaper dollars (dollars of less value). The System has more monetary liabilities than monetary assets, which resulted in a net gain in purchasing power in 1983.

Adjustment 3. General vs. specific inflation

The general inflation rate for 1983, as measured by the CPI, was higher than the specific inflation rate that impacted our utility plant and oil and gas properties. Therefore, the increase in value of utility plant and oil and gas properties during the year was $31 million less than it would have been had the value increased at the general inflation rate. This amount is shown as an adjustment under the "current cost" approach.

Adjustment 4. Regulatory impact

The final adjustment results from the fact that the regulated electric utility industry is only allowed, under current regulatory practice, to recover an amount that is a function of the historical cost of investments in utility plant and oil and gas properties. This recovery over time, which may be viewed as a stream of revenues, is therefore considered to be a monetary asset. And, because monetary assets lose value during periods of inflation, a loss must be recorded to reflect the current year's impact of holding utility plant and oil and gas properties. This adjustment is, however, reduced by the amounts reflected in adjustments 1 and 3.

Table 1. Statement of consolidated income adjusted for inflation

Year ended December 31, 1983 (millions of dollars)	Constant dollar approach	Current cost approach
Net income – as reported in the income statement	$133	$133
Adjustment 1. Depreciation and amortization expense	(96)	(111)
Adjusted net income for 1983	$ 37*	$ 22
Other adjustments		
Adjustment 2. Monetary assets and liabilities	$ 75	$ 75
Adjustment 3. General vs. specific inflation**		$(31)
Adjustment 4. Regulatory impact	$ (6)	$ 40

*If adjusted net income were further adjusted for the regulatory impact shown in Adjustment 4, the result would become a net income of $31 million under the "constant dollar" approach.

**At December 31, 1983, the current cost of utility plant and oil and gas properties was approximately $4,548 million while the net historical cost recoverable through depreciation and amortization was approximately $2,773 million.

Table 2. Five year comparison of selected supplementary financial data adjusted for effects of inflation

The following table shows selected financial data adjusted for the effects of inflation. This data is shown in millions of average 1983 dollars except for the per share amounts. Some of this data is from the table presented above.

Year ended December 31	1983	1982*	1981*	1980*	1979*
Operating revenue excluding fuel cost recovery	**$ 867**	$ 806	$ 726	$ 696	$ 731
Fuel cost recovery revenue	**507**	497	702	635	496
Total operating revenue	**$1,374**	$1,303	$1,428	$1,331	$1,227
Historical cost information adjusted for general inflation (constant dollar):					
Income (excluding Adjustment 4. Regulatory impact)	**$ 37**	$ 7	$ 6	$ 8	$ 29
Income per average common share	**$ 1.53**	$ .28	$ .25	$ .39	$ 1.36
Historical cost information adjusted for specific price increases (current cost):					
Income/(loss) (excluding Adjustment 4. Regulatory impact)	**$ 22**	$ (6)	$ (10)	$ (14)	$ (3)
Income/(loss) per average common share	**$ .89**	$ (.25)	$ (.44)	$ (.63)	$ (.14)
Increase in general price level over increase in specific prices after adjustment for impact of regulation (Adjustment 3 plus Adjustment 4)	**$ 9**	$ 29	$ (79)	$ (146)	$ (180)
General information:					
Net assets at historical cost at year end	**$ 777**	$ 722	$ 682	$ 689	$ 728
Net gain from inflation-adjusted monetary assets and liabilities	**$ 75**	$ 65	$ 135	$ 176	$ 196
Inflation-adjusted cash dividends declared per average common share	**$3.250**	$3.045	$2.909	$2.898	$3.065
Inflation-adjusted market price per average common share at year end	**$38.28**	$33.94	$26.24	$23.83	$28.73
Average Consumer Price Index	**298.5**	289.1	272.4	246.8	217.4

*Restated (See Note A-1 of Notes to Financial Statements)

Directors

As of December 31, 1983

W. Douglas Bell (1)
Chairman and
Chief Executive Officer
State Mutual Life Assurance
Co. of America
Worcester, Massachusetts
Executive Committee

Joan T. Bok (2)
Vice Chairman
New England Electric System
Westborough, Massachusetts
Executive Committee

Francis H. Burr (3)
Partner
Ropes & Gray
Attorneys
Boston, Massachusetts
Executive Committee

James H. Hunter (4)
President
James Hunter Machine Co., Inc.
Textile machinery manufacturer
North Adams, Massachusetts
Audit Committee

Edward H. Ladd (5)
President
Standish, Ayer & Wood, Inc.
Investment counselors
Boston, Massachusetts
Audit Committee

Joshua A. McClure (6)
President
American Custom Kitchens, Inc.
Providence, Rhode Island
Audit Committee

Malcolm McLane (7)
President
Orr & Reno, P.A.
Attorneys
Concord, New Hampshire
Compensation Committee

Felix A. Mirando Jr. (8)
Private Investor
New York, New York
Compensation Committee

Guy W. Nichols (9)
Chairman, President and
Chief Executive Officer
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Westborough, Massachusetts
Executive and Compensation
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Management consultants
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Bonanza Bus Lines, Inc.
Providence, Rhode Island
Compensation Committee

Anne Wexler (12)
Chairman
Wexler, Reynolds, Harrison
& Schule, Inc.
Management consultants
Washington, D.C.
Compensation Committee

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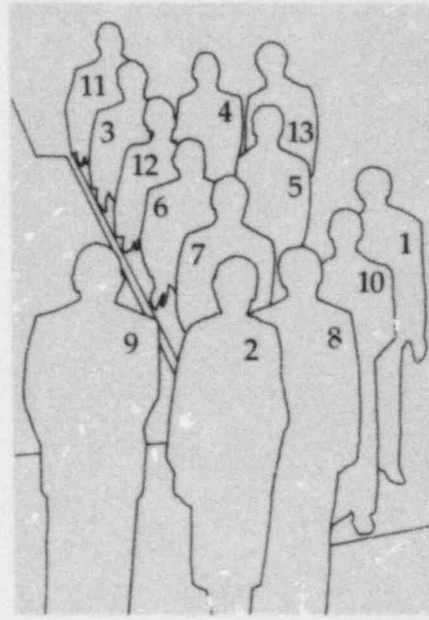
Harvard University
Cambridge, Massachusetts
Audit Committee



Management Team

Guy W. Nichols
Chairman, President
and Chief Executive
Officer
New England
Electric System
(pictured on page 3)

Joan T. Bok
Vice Chairman
New England
Electric System
(pictured on page 3)

John F. Kaslow
Senior Vice President
New England
Electric System

Paul J. Sullivan
Senior Vice President
New England
Electric System

Samuel Huntington
Vice President,
General Counsel
and Secretary
New England
Electric System

Edward A. Brown
Chairman
New England Power
Service Company

Alfred D. Houston
Treasurer
New England
Electric System

Glenn R. Schleede
President
New England Energy
Incorporated

Shareholder Information

New England Electric System common shares

	1983 Price range High	1983 Price range Low	1983 Dividend declared	1982 Price range High	1982 Price range Low	1982 Dividend declared
First quarter	$36	$33	$.80	$27½	$23⅞	$.70
Second quarter	$38¼	$34⅞	$.80	$28¼	$26⅜	$.75
Third quarter	$38¼	$34¾	$.80	$31¾	$26¾	$.75
Fourth quarter	$43⅜	$37⅜	$.85	$33½	$28¼	$.75

The total number of shareholders at December 31, 1983 was 85,967.

Selected quarterly financial information (unaudited)

(thousands of dollars)	First quarter*	Second quarter*	Third quarter*	Fourth quarter* **
1983				
Operating revenue	$362,181	$297,195	$358,325	$356,177
Operating income	$ 49,616	$ 38,673	$ 43,637	$ 47,570
Net income	$ 40,317	$ 26,908	$ 35,321	$ 30,073
Net income per average share	$ 1.69	$ 1.12	$ 1.45	$ 1.22
1982				
Operating revenue	$344,278	$279,773	$312,082	$325,727
Operating income	$ 44,317	$ 31,610	$ 38,394	$ 38,967
Net income	$ 33,027	$ 18,855	$ 28,214	$ 28,229
Net income per average share	$ 1.44	$ .81	$ 1.21	$ 1.19

*Restated (See Note A-1 of Notes to Financial Statements)
**(See Notes A-3 and C of Notes to Financial Statements)

Shareholder services

Questions about shareholder records, quarterly dividend payments, reinvestment of dividends and optional cash payments should be directed to:

New England Electric System
Shareholder Services Department
Post Office Box 770
Westborough, Massachusetts 01581

Transfer agent and registrar

The First National Bank of Boston
100 Federal Street
Boston, Massachusetts 02110

Stock exchange listings

New York Stock Exchange
Boston Stock Exchange

Trading symbol

NES

Annual meeting notice

The annual meeting of New England Electric System will be held at New England Life Hall, 225 Clarendon Street, Boston, Massachusetts, on Tuesday, April 24, 1984, at 10:30 a.m.

Form 10K and Statistical Report

Copies of the annual report on Form 10K to the Securities and Exchange Commission and a Statistical Report for 1983 are available, free of charge, by writing to:

New England Electric System
Shareholder Services Department
Post Office Box 770
Westborough, Massachusetts 01581

New England Electric System
25 Research Drive
Westborough, Massachusetts 01581
Telephone 617-366-9011