PSNH
Public Service of New Hampshire
New Hampshire Yankee Division

George S. Thomas
Vice President-Nuclear Production

NYN- 88088

June 23, 1988

United States Nuclear Regulatory Commission
Washington, DC 20555

Attention: Document Control Desk

Reference: Facility Operating License NPF-56, Construction Permit CPPR-136, Docket Nos. 50-443 and 50-444

Subject: Submittal of 1987 Annual Financial Reports

Dear Sir:

Pursuant to 10CFR50.71(b), enclosed is one copy of the 1987 Annual Financial Report for each of the Seabrook Station Joint Owners identified in Attachment A In cases where the Joint Owner is a subsidiary, the Consolidated Annual Financial Report of the parent corporation is provided.

If you need additional information or copies of these reports, please contact Mr. A. L. Legendre, Jr. at (603) 474-9574, extension 2373.

Very truly yours,

George S. Thomas

Attachments

cc: Mr. William T. Russell
Regional Administrator
United States Nuclear Regulatory Commission
Region I
425 Allendale Road
King of Prussia, PA 19406

Mr. Antone Cerne
NRC Senior Resident Inspector
Seabrook Station
Seabrook, NH 03874

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ATTACHMENT A

Seabrook Station Joint Owners

Public Service Company of New Hampshire
United Illuminating Company
EUA Power Corporation (See Note 3)
Massachusetts Municipal Wholesale Electric Company
New England Power Company
Connecticut Light and Power Company (See Note 1)
Canal Electric Company (See Note 2)
Montaup Electric Company (See Note 3)
New Hampshire Electric Cooperative, Inc.
Vermont Electric Generation and Transmission Cooperative
Taunton Municipal Lighting Plant
Hudson Light and Power Department

Notes:

1. Annual Report for the parent company Northeast Utilities provided for Connecticut Light and Power Company.

2. Annual Report for the parent company Commonwealth Energy System provided for Canal Electric Comapny.

3. Annual Report for the parent company Eastern Utilities Associates provided for Montaup Electric Company and EAU Power Corporation.

ANNUAL REPORT 1987

PSNH

Public Service of New Hampshire

Highlights of 1987

	1987	1986	Change Since 1986
Operating Revenues	$ 549,108,000	$ 505,190,000	8.7%
Operating Expenses	$ 450,960,000	$ 421,302,000	7.0%
Weighted Average Common Shares	37,194,226	37,193,896	-
(Loss) Per Common Share (Average)	(14.16)	(6.44)	-
Gross Investment in Utility Plant	$2,754,461,000	$2,769,033,000	(0.5)%
Construction Expenditures	$ 295,874,000	$ 367,688,000	(19.5)%
Prime Megawatt-Hours Sold	6,444,036	6,632,567	(2.8)%
Number of Customers (Average)	358,619	342,414	4.7%
Annual KWH Per Residential Customer	7,181	7,119	0.9%

Description of Business

Public Service of New Hampshire is the largest electric utility in New Hampshire, supplying electricity to approximately three-quarters of the state's one million residents. The Company distributes and sells electricity at retail in approximately 200 cities and towns in the state and also sells electricity at wholesale to other utilities. On January 28, 1988, the Company filed a voluntary petition for protection under Chapter 11 of the United States Bankruptcy Code. The Company is now operating its business as a debtor-in-possession.

Contents

April 18, 1988

Dear Shareowner:

Public Service of New Hampshire's Chapter 11 bankruptcy filing on January 28 signaled the end of one era and the beginning of another for the Company and its investors. With that filing, the Company entered a period of uncertainty regarding the ultimate shape of its future. In return, it gained much-needed protection from creditors.

When we announced our three-part plan for financial recovery last August, one part of the plan asked the New Hampshire Public Utilities Commission ("NHPUC") to transfer to the New Hampshire Supreme Court a question regarding the constitutionality of the anti-CWIP law as it applied to PSNH. On January 26, the New Hampshire Supreme Court issued its decision on that legal question. It ruled that the anti-CWIP law is constitutional in our case. Further, the Court stated clearly in its unanimous decision that it believed the anti-CWIP law did not grant the NHPUC the power to grant the 15 percent emergency rate relief we were seeking in order to facilitate a reorganization plan outside of bankruptcy. In effect, the Court's decision eliminated the basis for any version of the reorganization plan we had described in a December filing with the Securities and Exchange Commission.

Given the Court's stark ruling and the anxiety of a number of PSNH creditors, the Company was left with limited choices, among which were: a voluntary Chapter 11 bankruptcy filing, the risk of an involuntary filing by creditors, and attachment of the Company's property by debenture trustees, which would increase the risk of an involuntary filing. We opted to file voluntarily because we believed a voluntary filing gave the Company more control over its destiny, and the opportunity to maximize value for the investors.

This bankruptcy filing is monumental since no other investor-owned public utility has sought bankruptcy protection from its creditors in over 50 years. There are many procedural and legal issues that have yet to be sorted out, as well as unanswered questions about the Company's future. Amidst all of these uncertainties, I cannot predict for you the timing or other details of the outcome of PSNH's bankruptcy proceedings. However, your management already has made progress in addressing the problems that confront us. I would like to outline these areas of progress for you.

PSNH has chosen The First Boston Corporation ("First Boston"), a major investment banking firm, as its financial advisor. First Boston is uniquely qualified to render the financial advisory services required during PSNH's Chapter 11 case. The firm has been involved in over 30 bankruptcies and out-of-court restructurings in the past five years. First Boston also benefits from its past experience — in 1984 when PSNH experienced its first major financial crisis — in working with management on the analysis of options regarding its cash flow problems and the completion of Seabrook.

After a thorough search, PSNH has chosen Stutman, Treister & Glatt Professional Corporation ("Stutman") as its bankruptcy counsel. The Los Angeles-based firm, which specializes in corporate reorganization, bankruptcy and insolvency law, is a national leader in its field. Stutman's present and former clients include numerous large public companies which have successfully emerged from Chapter 11 proceedings. Your management has chosen Stutman because of its demonstrated track record in developing solutions within Chapter 11 that avert costly and lengthy litigation, thus completing the reorganization process as quickly as is feasible.

Until May 27, PSNH has the exclusive right to propose a financial reorganization plan to the bankruptcy court. Later this month the Company intends to file a motion for extension of this exclusivity period. The Company and its advisors believe that this extension would provide much-needed time to negotiate a plan of financial reorganization that is acceptable to all parties, including shareowners. In the weeks and months ahead, we will be working with investors and others, in a consensual process, to develop a plan designed to resolve the Company's problems in a manner that is acceptable to key parties.

Toward this end, both the New England Electric System and Northeast Utilities (the two largest electric utilities in New England) have publicly expressed an interest in purchasing PSNH's operating assets; neither has expressed interest in acquiring the Company's 35.6 percent ownership interest in the Seabrook project. We welcome these overtures, and when these companies submit actual proposals, each plan will receive our careful consideration. A friendly acquisition by one of these neighboring utilities or some other entity might play a major role in the

financial reorganization of PSNH. However, with discussions still at a very preliminary stage, it is too early to know if this will be the case. And there could, in fact, be overtures from other companies as well. All such opportunities will be considered as part of an orderly process being developed by PSNH and First Boston.

Meanwhile, PSNH is moving ahead in the development of alternative financial reorganization plans, which would not involve an acquisition of any portion of the Company's assets. Involved here could be the split-up of the Company into one or more companies with a potential for a change in the rate making authority from the NHPUC to the Federal Energy Regulatory Commission. The imperative is to adopt a plan which secures the highest value for PSNH investors.

In 1987, PSNH reported losses of $14.16 per share. The 1987 losses primarily were associated with certain accounting changes and the Company's investment in Seabrook Unit 1. (In 1986 PSNH had recognized significant losses associated with its investment in Seabrook Unit 2, as well as Pilgrim Unit 2.) In brief, because of continuing uncertainty associated with the Company's investment in the project, it was no longer appropriate to use regulated accounting standards which assumed full and timely recovery of the costs of Seabrook Unit 1. Not only were significant write-offs taken, but also a $212 million reserve was established to provide for future estimated pre-operational Seabrook expenses. These adjustments alone translated into a net loss of $591 million in 1987, or just under $16 per share.

It is ironic that the Company has reported losses of this magnitude while our operating results reveal a healthy and growing core business. PSNH's operating results for the year were excellent. The Company's operating revenues increased 8.7 percent to $549,108,000, and operating income was up 17.0 percent to $98,148,000. This growth reflects the vibrant economy in our service area and a continued influx of new customers into our franchise area. Prime sales to ultimate customers totaled 5.9 million megawatt-hours in 1987, a 6.1 percent increase over sales during the previous year.

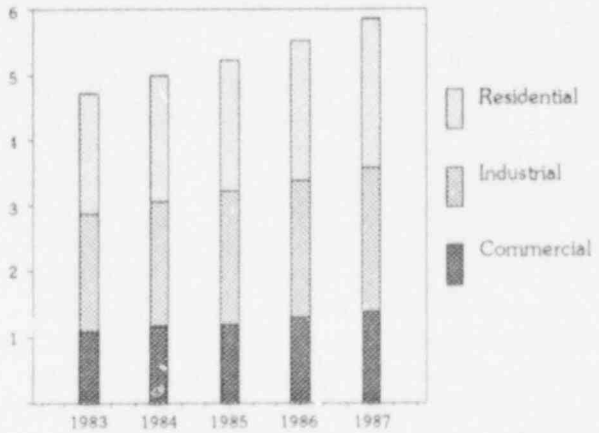
The strength of our franchise will be a significant factor as we move forward in negotiating a financial reorganization of the Company that maximizes your return. Despite the financial problems, PSNH has a valuable core business: providing electricity to New Hampshire, one of the fastest and most steadily growing energy markets in the nation. And if and when Seabrook goes into commercial operation, the much-needed power from this plant will add further value where there is, right now, a lot of uncertainty.

The threat of bankruptcy that has been haunting Public Service of New Hampshire for so long has now become a reality. With that fact behind us, we will use this period of protection from creditors to carefully review all opportunities for improving the Company's financial standing. Our goal during this period is very clear: to formulate a financial reorganization plan that is acceptable to key parties, maximizes value and enables us to emerge as quickly as possible from Chapter 11.

Sincerely,

Robert J. Harrison
President and
Chief Executive Officer

Prime Sales to Ultimate Customers
(Millions of Megawatt-Hours)



PSNH's sales growth has averaged 5.2% over the past five years. This growth reflects a healthy core business that will be a significant factor as the Company moves forward in a financial reorganization to maximize investor return.

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

Capital Requirements and Liquidity

Bankruptcy Filing. On January 28, 1988, the Company filed a voluntary petition for protection under Chapter 11 of the United States Bankruptcy Code. The Company is now operating its business as a debtor-in-possession. The Company filed for protection under the Bankruptcy Code because the cash generated by the Company's operations was insufficient to satisfy its capital requirements and to pay interest as it came due on the Company's outstanding indebtedness. The Company was unable to consummate exchange offers with its debtholders designed to reduce its debt service obligations. The New Hampshire Public Utilities Commission ("NHPUC") did not act on the Company's request for an emergency rate increase based on the Seabrook Plant because the New Hampshire Supreme Court determined that New Hampshire's anti-CWIP law prohibits such a rate increase prior to operation of the Plant. The Company concluded that the bankruptcy filing was necessary to avoid attachments of its property by certain debtholder representatives and to avoid the filing of an involuntary bankruptcy petition.

Cash Flow Problems. The Company ceased paying interest on its unsecured debt in October 1987 and ceased paying interest on the remainder of its debt on January 28, 1988, the date of the filing of the petition in bankruptcy. The Company has filed a motion with the Bankruptcy Court to permit, during the pendency of the bankruptcy proceedings at least until February 1989, payment of principal and interest on the First Mortgage Bonds, the General and Refunding Mortgage Bonds and debt secured by any such bonds. If the Bankruptcy Court determines that holders of Third Mortgage Bonds are also entitled during pendency of the bankruptcy proceedings to receive payments of interest, the Company anticipates that its cash flow would by early 1989 become inadequate to make such payment and to pay all of the Company's remaining ongoing expenditures. These expenditures include monthly payments for the Company's approximately 35% share of expenditures for the Seabrook Plant, the Company's capital expenditures for maintaining and adding to its other plants and facilities, purchases of power including payments to small power producers, payment of taxes periodically owed to the State of New Hampshire and local cities and towns, and other normal operating costs and expenses. Indeed, even without payment of interest on Third Mortgage Bonds during the bankruptcy proceedings, in the absence of rate increases, the Company's cash flow may be inadequate at times to make all of these other expenditures.

Any financing for the purpose of raising funds to make necessary capital expenditures, supplementing inadequate cash flow, or otherwise, and the granting of any lien on Company assets to secure financing during the bankruptcy proceedings would require approval of the Bankruptcy Court and possibly other regulatory bodies. Any such financing and lien would likely be opposed by some of the Company's creditors. The Company believes that it will be difficult to achieve any substantial amount of such financing.

The Company ceased paying dividends on shares of its Common and Preferred Stock in 1984 and until the dividend arrearages with respect to shares of the Preferred Stock are cured, the holders thereof will continue to have the right to elect a majority of the Company's Board of Directors, a right which they have exercised since 1985. If a reorganization can be achieved, it is anticipated that any reorganization plan filed and confirmed in the bankruptcy case might result in substantial alteration or elimination of some or all of the current rights of the holders of shares of Common and Preferred Stock.

Reorganization Plan. Until May 27, 1988 (and thereafter to the extent the Bankruptcy Court extends said date) the Company has the exclusive right in the bankruptcy proceedings to propose a reorganization plan. The Company is attempting to develop such a plan. It is believed that some level of rate increases will be essential to develop and implement a successful plan. The plan could involve a sale of the Company or certain of its assets or a split-up of the Company and its assets into two or more companies. In the latter case, this could result in a change in rate regulation from the NHPUC to the Federal Energy Regulatory Commission.

Any plan may involve substantial restructuring of the Company's debt and equity with the Company's existing equity and unsecured debtholders likely to receive securities having substantially different rights and values. Confirmation of any reorganization plan is likely to require a substantial period of time during which the Company will remain under the jurisdiction of the Bankruptcy Court. It is not possible at this time to predict the nature of

any such plan, the amount of recovery achieved by the Company's debt and equity holders, the likelihood of the plan's acceptance by the Company's creditors and equity holders or its approval by the Bankruptcy Court and any other regulatory bodies having jurisdiction, or the length of time it will take to implement such a plan.

Both the New England Electric System and Northeast Utilities have publicly expressed an interest in the acquisition of certain of the Company's assets; neither has expressed interest in acquiring the Company's current interest in the Seabrook Plant. Preliminary discussions with both entities have begun but the Company is unable to predict when or whether any arrangement satisfactory to the Company, its creditors and its stockholders could be reached with either entity. Any such arrangement would also be subject to the approval of the Bankruptcy Court.

The Company continues to believe that the Seabrook Plant is a needed energy source for the New England region. The Company also believes that successful operation of the Seabrook Plant and its reflection in rates are necessary elements to maximize recovery for the Company's security holders. The Company will therefore continue to fund its share of Plant expenditures unless ordered by the Bankruptcy Court to reduce or cease such funding. It is anticipated that the continued funding of the Seabrook Plant will be opposed by certain of the Company's creditors.

The Company has very substantial non-Seabrook capital requirements to satisfy if it is to provide adequate service to its fast growing service area. The Company's non-Seabrook construction program for the five-year period 1988-1992 is currently estimated to be approximately $314,100,000 and its share of the pre-operational testing and other Seabrook Plant capital additions is estimated to aggregate $178,700,000, based on an operation date for the Seabrook Plant of January 1, 1990, which has been assumed for financial planning purposes. The Company cannot predict when, if at all, the Plant will commence operation. The following table sets forth the Company's estimated capital expenditures for the period:

	Non-Seabrook	Seabrook	Total
1988	$ 46,600,000	$ 70,800,000	$117,400,000
1989	58,300,000	71,500,000	129,800,000
1990	64,800,000	9,900,000	74,700,000
1991	79,200,000	12,900,000	92,100,000
1992	65,200,000	13,600,000	78,800,000
Total	$314,100,000	$178,700,000	$492,800,000

It is possible that additional expenditures may be required to meet regulatory and environmental requirements at the Seabrook Plant and the Company's other generating facilities. The estimated Seabrook expenditures for 1988 and 1989 were expensed in 1987. See Note 3 of Notes to Financial Statements.

Results of Operations

The accompanying financial statements have been prepared in conformity with principles of accounting applicable to a going concern. Since January 28, 1988 the Company has been operating as a debtor-in-possession under the protection of the Bankruptcy Court. The Company will endeavor to develop a plan of reorganization which will enable the Company to emerge from bankruptcy on a financially viable basis, but any such reorganization will almost certainly result in significant adjustments to the financial statements.

Operating revenues increased 8.7% for 1987 and decreased 2.8% in 1986 and 1.1% in 1985. The increase for 1987 was due to a 4.7% base rate increase effective January, 1987 and a substantial increase in the Company's energy cost recovery revenues commencing on July 1, 1987 offset by a 2.8% decrease in prime megawatt-hour sales. The decrease in revenues for 1986 and 1985 was principally due to lower energy cost recovery revenues, as prime megawatt-hour sales increased 2.8% in 1986 and 4.7% in 1985.

The decrease in prime megawatt-hour sales for 1987 and the smaller increase for 1986 reflect the loss, effective October 1, 1986, of two of the Company's wholesale customers, which previously accounted for 12%

of the Company's total annual prime sales and approximately 8% of its total annual revenues from prime sales. However, megawatt-hour sales to retail customers increased 6.1% for 1987, due mainly to a 4.7% increase in the average number of retail customers served by the Company. Continued growth in megawatt-hour sales will be dependent on the rate of economic growth in New Hampshire, weather, the competition from other energy sources and suppliers, and the price of electricity.

On June 29, 1987, the NHPUC ordered that the Company was entitled to approximately $20.5 million of the $58.9 million (14%) rate increase originally requested in May, 1986. The NHPUC determined that the Company's cost of common equity was 15% (the Company had requested 19%) and fixed an overall rate of return at 14.94%. The NHPUC ordered refunds of amounts collected under bond amounting to approximately $21 million, which were paid in November.

The aggregate of fuel and purchased and interchanged power expense, on which energy cost recovery revenues are based, increased 1.6% for 1987 and decreased 12.2% for 1986 and 4.1% for 1985. Other operating expenses, except income taxes, increased 21.0% for 1987, 11.0% for 1986 and 16.7% for 1985, resulting mainly from increases in the costs needed to support the growth in the number of customers served as well as increases in maintenance, depreciation, property taxes and insurance.

The Company had overall provisions for income tax recoveries of $72.9 million, $30.2 million and $18.9 million for 1987,1986 and 1985 respectively. Effective tax rates varied significantly from year to year (see Note 7 of Notes to Financial Statements). All of the amounts for 1987 and 1986 represent non-cash reductions in accumulated deferred income taxes associated with financial statement provisions for losses on generating projects.

Interest on Long-Term Debt and Other Interest for 1987 increased 7.1%. Such charges increased 16.5% for 1986 and 41.8% for 1985. These increases reflect the issuance of debt totaling $100 million in May 1987, $325 million in February 1986 and $425 million in December 1984.

In mid-1987, it became apparent to management that a significant restructuring of the Company's capitalization would be necessary because cash generated by operations was insufficient to satisfy its capital requirements and to pay interest on the Company's indebtedness, and access to further borrowing was simply not available. The Company's financial difficulties are directly related to the magnitude of its investment in the Seabrook Plant and to the Company's inability to base its rates upon the cost of this project prior to its operation (currently assumed to be January 1, 1990 for financial planning purposes). The Company determined that, should the Seabrook Plant be permitted to become operational, political and competitive pressures would not permit the Company to recover the recorded cost of its investment in accordance with traditional utility rate making practices. Accordingly, the Company changed its method of accounting for its investment in the Seabrook Plant to eliminate AFUDC from capitalized costs and to recognize capitalized interest and associated income tax effects. This change in method of accounting effectively restates the cost basis of the Seabrook Plant to eliminate the previously assumed effects of regulation. Management believes the Company's other plant assets should not be similarly adjusted because the Company's rates are based on recovering their recorded costs through the rate making process.

The effect of the change in method of accounting for the Seabrook Plant, effective January 1, 1987, was to increase the 1987 pretax loss before the cumulative effect of change in Seabrook Plant accounting by $51.3 million. However, income tax benefits (in the form of reductions in accumulated deferred taxes on income which were established in recognizing the cumulative effect of the change in Seabrook Plant accounting) of $71.0 million, associated with 1987 losses from operations, resulted in an overall net decrease in the 1987 loss before the cumulative effect of the change in Seabrook Plant accounting of $19.7 million (or $0.53 per share).

The adjustment of $398.7 million (including a provision for deferred taxes on income of $98.1 million) to apply the new method retroactively was recorded as a reduction in 1987 income.

Construction of Unit 2 of the Seabrook Plant was stopped in 1984. In 1986 the Company recognized a loss of $333.5 million when the Seabrook Joint Owners voted to relinquish to the Nuclear Regulatory Commission the construction permit for Unit 2 and initiated a program for the disposition of equipment having a net salvage value. Accordingly, reference herein to the Seabrook Plant refers to Unit 1 only.

For the reasons described above, management has also determined that further cost capitalization in connection with the Seabrook Plant would not be prudent and that it should therefore cease capitalization effective January 1, 1988. Accordingly, a loss of $212.0 million was recognized in 1987 associated with estimated remaining costs to be incurred prior to an assumed operating date of January 1, 1990. The loss provision of $212.0 million included interest of $70 million relating principally to interest on secured debt. It does not include a provision for interest on unsecured debt after January 28, 1988. See Note 1 of Notes to Financial Statements and the note at the bottom of the Statements of Earnings.

In 1987 the Company also expensed $3.6 million of its investment in Millstone Unit 3 as a result of an order from the NHPUC based on prudency audits completed for another regulator in the State of Connecticut. The Company also expensed regulatory assets of $26.4 million primarily related to previously deferred rate case expenses and the cost of converting a generating facility to burn oil or coal. In addition, the Company expensed $6.1 million of accumulated costs for the unconsummated exchange offer.

Inflation continues to affect Company operations, since under existing regulatory practice the investment in utility plant has been recovered at historical cost but replaced, as necessary, at current cost. In the case of the Seabrook Plant and other plants constructed over many years, the rates necessary to recover accumulated inflation and carrying costs may be in excess of what the customers for that power can pay. Thus something less than historical cost may be recovered. The effects of inflation on other expenses are generally recovered through energy cost recovery mechanisms or rate filings, as necessary.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

STATEMENTS OF EARNINGS

	For the Year Ended December 31,		
	1987	1986	1985
	(Thousands of Dollars Except Per Share Amounts)		
Operating Revenues (Note 4)			
Residential	$214,227	$188,875	$182,846
Industrial	150,437	131,303	137,103
Other	184,444	185,012	199,791
Total Operating Revenues	549,108	505,190	519,740
Operating Expenses			
Operation			
Fuel	123,571	122,457	134,673
Purchased and Interchanged Power	97,571	95,187	113,136
Other Operating Expenses	97,180	66,915	61,501
Maintenance	37,236	39,704	33,269
Depreciation	31,396	29,795	25,660
Taxes on Income (Note 7)	35,601	43,108	46,107
Other Taxes, Principally Property Taxes	28,405	24,136	24,221
Total Operating Expenses	450,960	421,302	438,567
Operating Income	98,148	83,888	81,173
Other Income and Deductions			
Allowance for Equity Funds Used During Construction (Notes 2 and 4)	1,183	124,697	116,228
Taxes on Income (Note 7)	108,478	73,320	65,054
Equity in Earnings of Affiliated Companies	1,423	2,722	3,148
Interest and Dividends	5,666	11,649	15,380
Losses on Generating Projects (Note 3)	(241,452)*	(348,521)	-
Other – Net	(5,299)	(5,207)	(5,124)
Total Other Income and Deductions	(130,001)	(141,340)	194,686
Income (Loss) Before Interest Charges	(31,853)	(57,452)	275,859
Interest Charges			
Interest on Long-Term Debt	210,409	206,400	171,989
Other Interest	14,950	4,091	8,699
Capitalized Interest (Notes 2 and 4)	(169,068)	-	-
Allowance for Borrowed Funds Used During Construction (Notes 2 and 4)	(1,108)	(69,578)	(59,571)
Net Interest Charges	55,183	140,913	121,117
Income (Loss) Before Cumulative Effect of Change In Seabrook Plant Accounting (Note 2)	(87,036)	(198,365)	154,742
Cumulative Effect of Change In Seabrook Plant Accounting (Note 2)	(398,651)	-	-
Net Income (Loss)	(485,687)	(198,365)	154,742
Preferred Dividend Requirements	40,980	40,981	40,981
Earnings (Loss) Available for Common Stock	$(526,667)	$(239,346)	$113,761
Weighted Average Common and Common Equivalent Shares (000's)	37,194	37,194	48,128
Earnings (Loss) Per Common and Common Equivalent Share (Note 4)			
Before Cumulative Effect	$ (3.44)	$ (6.44)	$ 2.50
Cumulative Effect of Change In Seabrook Plant Accounting (Note 2)	(10.72)	-	-
Net Income (Loss)	$ (14.16)	$ (6.44)	$ 2.50
Proforma (Note 2)	$ (3.44)	$ (4.47)	$ 0.34

*Note: The provision for Losses on Generating Projects does not include an amount for unsecured interest after January 28, 1988. The Company does not intend to accrue unsecured interest after that date. That interest would have increased the provision by $273 million and increased the loss per common and common equivalent share by $6.58. See Note 3.

See accompanying Notes to Financial Statements

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

BALANCE SHEETS
ASSETS

	December 31, 1987	December 31, 1986
	(Thousands of Dollars)	
Utility Plant at Original Cost		
Electric Plant	$ 941,092	$ 894,744
Less: Accumulated Provision for Depreciation	291,201	266,490
	649,891	628,254
Unfinished Construction:		
Seabrook (Notes 2 and 3)	1,794,823	1,862,469
Other	18,546	11,820
Total Unfinished Construction	1,813,369	1,874,289
Net Utility Plant	2,463,260	2,502,543
Investments		
Nuclear Generating Companies	11,590	11,712
Real Estate Subsidiary	8,340	7,997
Other, at Cost	182	176
Total Investments	20,112	19,885
Current Assets		
Cash and Temporary Investments	19,378	62,541
Accounts Receivable (Net of Allowance of $935 and $925 in 1987 and 1986, respectively)	46,674	34,534
Unbilled Revenue	15,750	14,359
Fuel, Materials and Supplies, at Cost	20,643	23,837
Prepaid Fuel Costs	7,711	-
Other	13,274	7,383
Total Current Assets	123,430	142,654
Other Assets		
Special Deposits	702	7,641
Other	31,887	35,121
Total Other Assets	32,589	42,762
	$2,639,391	$2,707,844

See accompanying Notes to Financial Statements

BALANCE SHEETS
CAPITALIZATION AND LIABILITIES

	December 31, 1987	1986
	(Thousands of Dollars)	
Capitalization (See separate statements)		
Common Stock Equity	$ 240,777	$ 763,867
Preferred Stock		
With Mandatory Redemption Requirements	384,248	357,649
Without Mandatory Redemption Requirements	48,696	48,701
Long-Term Debt - Net	540,888	1,372,585
Total Capitalization	1,214,609	2,542,802
Current Liabilities		
Debt and Accrued Interest in Default (Notes 5 and 8)	1,028,638	-
Long-Term Debt to be Retired Within One Year	6,599	24,495
Preferred Stock Redemption Due Currently	33,550	22,740
Estimated Future Seabrook Expenditures (Note 3)	212,000	-
Accounts Payable	15,038	27,023
Accrued Pension Costs	16,633	5,148
Accrued Taxes	2,161	5,543
Accrued Interest, Net of Amounts in Default	23,634	39,311
Estimated Cancellation Costs for Seabrook Unit 2	13,329	13,960
Other	9,007	6,934
Total Current Liabilities	1,360,589	145,154
Deferred Credits		
Accumulated Deferred Investment Tax Credits (Note 7)	17,817	17,083
Accumulated Deferred Taxes on Income (Note 7)	44,240	722
Other	2,136	2,083
Total Deferred Credits	64,193	19,888
Commitments and Contingencies (Notes 1 and 6)	-	-
	$2,639,391	$2,707,844

See accompanying Notes to Financial Statements

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

STATEMENTS OF CAPITALIZATION

	December 31, 1987	December 31, 1986
	(Thousands of Dollars)	
Common Stock Equity		
Common Stock – $5 Par Value (a)		
Authorized – 60,000,000 Shares		
Outstanding – 37,194,226 Shares in 1987 and 37,193,896 in 1986	$185,971	$185,969
Other Paid-In Capital	436,221	436,218
Retained Earnings (Deficit) (b)	(381,415)	141,680
Total Common Stock Equity	240,777	763,867

Cumulative Preferred Stock

Par Value $100 Per Share – Authorized 1,350,000 Shares
– Outstanding 615,360 Shares

Par Value $25 Per Share – Authorized 14,000,000 Shares
– Outstanding 10,400,000 Shares

Dividend	Par Value	Shares Outstanding	Call Price		
With Mandatory Redemption Requirements (b & c)					
7.64%	$100	120,000	$104.08	15,553	14,636
9.00	100	158,400	104.50	21,364	19,939
11.24	25	1,200,000	27.11	43,067	39,694
17.00	25	1,200,000	28.19	49,762	44,663
15.00	25	1,200,000	27.81	47,438	42,937
15.44	25	2,400,000	27.90	95,898	86,634
13.00	25	1,400,000	28.25	52,631	48,081
13.80	25	2,400,000	28.45	92,085	83,805
				417,798	380,389
Less: Preferred Stock Redemption Due Currently				(33,550)	(22,740)
				384,248	357,649
Without Mandatory Redemption Requirements (b)					
3.35%	$100	102,000	$100.00	10,200	10,200
4.50	100	75,000	102.00	7,500	7,500
5.50(Convertible)	100	9,960	100.00	996	1,001
7.92	100	150,000	101.98	15,000	15,000
11.00	25	600,000	26.25	15,000	15,000
				48,696	48,701
Total Cumulative Preferred Stock – Net				$432,944	$406,350

See accompanying Notes to Financial Statements and to Statements of Capitalization

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

STATEMENTS OF CAPITALIZATION

			December 31, 1987	December 31, 1986
			(Thousands of Dollars)	
Long-Term Debt - Net				
First Mortgage Bonds				
Series	**Rate**	**Maturity**		
M	4 5/8%	1992	$ 20,805	$ 20,905
N	6 1/8	1996	15,069	15,069
O	6 1/4	1997	13,381	13,462
P	7 1/8	1998	13,491	13,543
Q	9	2000	18,262	18,274
R	7 5/8	2002	18,381	18,381
S	9	2004	18,719	18,725
V	9 1/8	2006	14,296	14,304
W	10 1/8	1993	9,658*	9,658*
X	12	1999	9,126*	9,126*
Y	18	1989	24,135*	24,135*
Z	Variable	1991	10,080*	10,080*
			185,403	185,662
Less: First Mortgage Bonds(*) Pledged as Security for General and Refunding Mortgage Bonds			(52,999)	(52,999)
Total First Mortgage Bonds			132,404	132,663
General and Refunding Mortgage Bonds				
A	10 1/8%	1993	32,700	38,160
B	12	1999	60,000	60,000
C	14 1/2	2000	30,000	30,000
D	17	1990	23,000	23,000
E	18	1989	50,000	50,000
H	Variable	1991	112,500**	112,500**
Less: General and Refunding Mortgage Bonds (**) Pledged as Security for Nuclear Fuel Obligation, Eurodollar Term Loan and Promissory Note Due 1991			(112,500)	(112,500)
Third Mortgage Bonds				
A	13 3/4%	1996	225,000	225,000
B	10 1/2	2016	100,000***	100,000***
Less: Third Mortgage Bonds (***) Pledged as Security for Pollution Control Revenue Bonds			(100,000)	(100,000)
Nuclear Fuel Obligation, due 1991 (Note 5)			45,000	45,000
Eurodollar Term Loan, due 1991 (Note 5)			45,000	45,000
Promissory Note, due 1991 (Note 5)			22,500	22,500
Pollution Control Revenue Bonds				
	12 1/4–13 3/4%	1988–2003 (Note 5)	20,000	20,000
	10 1/2	2016	100,000	100,000
Debentures (Note 5)				
	15 3/4%	1988	75,000	75,000
	14 3/8	1991	100,000	100,000
	15	2003	100,000	100,000
	17 1/2	2004	425,000	425,000
Promissory Note, Due 1988 (Note 5)			18,437	18,437
Total Long-Term Debt			1,504,041	1,509,760
Less:Long-Term Debt to be Retired Within One Year			(6,599)	(24,495)
Long-Term Debt in Default (Note 5)			(850,937)	-
Unamortized Premium and Discount			(105,617)	(112,680)
Long-Term Debt - Net			540,888	1,372,585
Total Capitalization			$1,214,609	$2,542,802

See accompanying Notes to Financial Statements and to Statements of Capitalization

NOTES TO STATEMENTS OF CAPITALIZATION

(a) In December 1984 the Company issued 18,375,000 warrants allowing the holders to purchase a share of Common Stock at an exercise price of $5.00 per share. The Warrants expire in 1991.

(b) Since April 1984, the Company has omitted dividends on shares of its Common and Preferred Stocks and since May 1984 has made no required sinking fund payments on shares of its Preferred Stocks. The Preferred Stock dividends are cumulative and the Articles of Agreement of the Company require that the dividends on shares of Preferred Stock be paid before any dividends on shares of Common Stock can be paid. The NHPUC has imposed a condition that the Company may not pay dividends on shares of Preferred and Common Stock until authorized to do so by further NHPUC order. In view of the filing by the Company for protection under the Bankruptcy Code the Company cannot predict whether any payments will be made except ultimately as part of a plan of reorganization for the Company.

If and when dividends payable on shares of Preferred Stock are in arrears in an amount equal to four full quarterly dividends, the holders of shares of Preferred Stock have the right to elect a majority of the Board of Directors. Since February 15, 1985, the Company has failed to pay in excess of four full quarterly dividends on shares of Preferred Stock and the holders of the Preferred Stock, voting as a class, have elected a majority of the Board of Directors of the Company at the annual meetings held since then. Holders of the Preferred Stock will retain this right during the Bankruptcy process until altered or eliminated under a plan of reorganization for the Company.

The table below indicates the amounts of dividends in arrears at December 31, 1987:

Dividend Rate	Shares	Per Share	Total
With Mandatory Redemption Requirements: (Classified in Preferred Stock)			
7.64%	120,000	$29.605	$ 3,552,600
9.00	158,400	34.875	5,524,200
11.24	1,200,000	10.889	13,066,500
17.00	1,200,000	16.469	19,762,500
15.00	1,200,000	14.531	17,437,500
15.44	2,400,000	14.958	35,898,000
13.00	1,400,000	12.594	17,631,250
13.80	2,400,000	13.369	32,085,000
			$144,957,550
Without Mandatory Redemption Requirements: (Classified in Retained Earnings)			
3.35%	102,000	$12.981	$ 1,324,087
4.50	75,000	17.438	1,307,813
5.50 (Convertible)	9,960	21.313	212,273
7.92	150,000	30.690	4,603,500
11.00	600,000	10.656	6,393,750
			$ 13,841,423

(c) The annual Sinking Fund requirements for Preferred Stock with mandatory redemption requirements are as follows: 1988 and arrearages – $33,550,000; 1989 – $13,810,000; 1990 – $13,810,000; 1991 – $13,810,000, and 1992 – $13,810,000. No Preferred Stock sinking fund payments have been made since May 1984.

See accompanying Notes to Financial Statements

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	For the Year Ended December 31,		
	1987	1986	1985
	(Thousands of Dollars)		
Source of Funds			
From Operations			
Income (Loss) Before Cumulative Effect of Change in Seabrook Plant Accounting	$ (87,036)	$(198,365)	$ 154,742
Principal Non-Cash Charges (Credits) to Income			
Depreciation	31,396	29,795	25,660
Amortization of Bond Premium, Discount and Expense	7,666	27,827	2,823
Allowance for Equity Funds Used During Construction	(1,183)	(124,697)	(116,228)
Deferred Taxes and Investment Credit Adjustments	(69,591)	(30,212)	(13,857)
Losses on Generating Projects	29,452	333,521	-
Total from Operations	(89,296)	37,869	53,140
From Outside Sources			
Increase in Long-Term Debt	18,437	281,065	130,936
Change in Short-Term Borrowings	100,000	-	(145,485)
Total from Outside Sources	118,437	281,065	(14,549)
Decrease in Working Capital	283,722	-	257,869
Total	$ 312,863	$ 318,934	$ 296,460
Application of Funds			
Property Additions	$ 295,874	$ 367,688	$ 361,950
Allowance for Equity Funds Used During Construction	(1,183)	(124,697)	(116,228)
Reduction of Long-Term Debt	6,260	24,701	42,972
Reduction of Preferred Stock	10,815	9,060	6,072
Increase in Working Capital	-	29,103	-
Special Deposits	(6,939)	3,683	1,527
Other Applications - Net	8,036	9,396	167
Total	$ 312,863	$ 318,934	$ 296,460
Increase (Decrease) in Working Capital Other Than Short-Term Borrowings and Debt in Default (Note 5)			
Cash and Temporary Investments	$ (43,163)	$ 44,768	$(244,483)
Receivables	12,140	(12,039)	(448)
Inventories	(3,194)	(1,810)	(2,664)
Accrued Interest in Default	(77,701)	-	-
Long-Term Debt to be Retired Within One Year	17,896	18,268	(22,333)
Estimated Future Seabrook Expenditures	(212,000)	-	-
Preferred Stock Redemption Due Currently	(10,810)	(9,060)	(6,060)
Accounts Payable	11,985	8,336	(3,248)
Accrued Taxes	3,382	(1,313)	3,729
Accrued Interest, Net of Amount in Default	15,677	(2,242)	2,315
Estimated Cancellation Costs for Seabrook Unit 2	631	(13,960)	-
Other	1,435	(1,845)	15,323
Total	$(283,722)	$ 29,103	$(257,869)
Composition of Property Additions:			
Jointly-Owned Nuclear Facilities	$ 221,721	$ 311,401	$ 299,269
Nuclear Fuel	12,716	10,525	19,445
Other	61,437	45,762	43,236
Total	$ 295,874	$ 367,688	$ 361,950

See accompanying Notes to Financial Statements

STATEMENTS OF CHANGES IN COMMON STOCK EQUITY
For The Three Years Ended December 31, 1987

	Shares	Amount at Par Value	Other Paid-In Capital	Retained Earnings (Deficit)	Total
		(Thousands of Dollars)			
Balance – December 31, 1984	37,191,067	$185,955	$436,320	$ 292,852	$ 915,127
Add (Deduct)					
Net Income				154,742	154,742
Issuance of Common Stock	829	4	5		9
Issuance Cost of Warrants			(106)		(106)
Balance – December 31, 1985	37,191,896	$185,959	$436,219	$ 447,594	$1,069,772
Add (Deduct)					
Net Loss				(198,365)	(198,365)
Reclassification to Preferred Stock of cumulative dividends in arrears for Preferred Stock with mandatory redemption requirements				(107,549)	(107,549)
Issuance of Common Stock	2,000	10	(1)	–	9
Balance – December 31, 1986	37,193,896	$185,969	$436,218	$ 141,680	$ 763,867
Add (Deduct)					
Net Loss				(485,687)	(485,687)
Issuance of Common Stock	330	2	3		5
Dividend requirements for Preferred Stock with mandatory redemption requirements				(37,408)	(37,408)
Balance – December 31, 1987	37,194,226	$185,971	$436,221	$(381,415)	$ 240,777

See accompanying Notes to Financial Statements

1. Proceedings Under Chapter 11

On January 28, 1988, the Company filed a voluntary petition for protection under Chapter 11 of the United States Bankruptcy Code. The Company is now operating its business as a debtor-in-possession. The Company filed for protection under the Bankruptcy Code because the cash generated by the Company's operations was insufficient to satisfy its capital requirements and to pay interest as it came due on the Company's outstanding indebtedness. The Company was unable to consummate exchange offers with its debtholders designed to reduce its debt service obligations. The New Hampshire Public Utilities Commission ("NHPUC") did not act on the Company's request for an emergency rate increase based on the Seabrook Plant because the New Hampshire Supreme Court determined that New Hampshire's anti-CWIP law prohibits such a rate increase prior to operation of the Plant. The Company concluded that the bankruptcy filing was necessary to avoid attachments of its property by certain debtholder representatives and to avoid the filing of an involuntary bankruptcy petition.

The Company ceased paying interest on its unsecured debt in October 1987 and ceased paying interest on the remainder of its debt on January 28, 1988, the date of the filing of the petition in bankruptcy. The Company has filed a motion with the Bankruptcy Court to permit, during the pendency of the bankruptcy proceedings at least until February 1989, payment of principal and interest on the First Mortgage Bonds, the General and Refunding Mortgage Bonds and debt secured by any such bonds. If the Bankruptcy Court determines that holders of Third Mortgage Bonds are also entitled during pendency of the bankruptcy proceedings to receive payments of interest, the Company anticipates that its cash flow would by early 1989 become inadequate to make such payment and to pay all of the Company's remaining ongoing expenditures. These expenditures include monthly payments for the Company's approximately 35% share of expenditures for the Seabrook Plant, the Company's capital expenditures for maintaining and adding to [illegible] plants and facilities, purchases of power including payments to small power producers, payment of taxes [illegible] locally owed to the State of New Hampshire and local cities and towns, and other normal operating cost[illegible] expenses. Indeed, even without payment of interest on Third Mortgage Bonds during the bankruptc[illegible] proceedings, in the absence of rate increases, the Company's cash flow may be inadequate at times to make all of these other expenditures.

The accompanying financial statements have been prepared in conformity with principles of accounting applicable to a going concern. The Company is being operated as a going concern under the protection of the Bankruptcy Court. The Company will endeavor to develop a plan of reorganization which will enable the Company to emerge from bankruptcy on a financially viable basis, but any such reorganization will almost certainly result in significant adjustments to the financial statements.

Both the New England Electric System and Northeast Utilities have publicly expressed an interest in the acquisition of certain of the Company's assets; neither has expressed interest in acquiring the Company's current interest in the Seabrook Plant. Preliminary discussions with both entities have begun but the Company is unable to predict when or whether any arrangement satisfactory to the Company, its creditors and its stockholders could be reached with either entity. Any such arrangement would also be subject to the approval of the Bankruptcy Court and other regulatory bodies having jurisdiction.

2. Change in Seabrook Plant Accounting

The Company's financial difficulties are directly related to the magnitude of its investment in the Seabrook Plant and to the Company's inability to base its rates upon the cost of this project prior to its operation (currently assumed to be January 1, 1990 for financial planning purposes). The Company determined that, should the Seabrook Plant be permitted to become operational, political and competitive pressures would not permit the Company to recover the recorded cost of its investment in accordance with traditional utility rate making practices. Accordingly, the Company changed its method of accounting for its investment in the Seabrook Plant to eliminate AFUDC from capitalized costs and to recognize capitalized interest and associated income tax effects. This change in method of accounting effectively restates the cost basis of the Seabrook Plant to eliminate the previously assumed effects

of regulation. Management believes the Company's other plant assets should not be similarly adjusted because the Company's rates are based on recovering their recorded costs through the rate making process.

The effect of the change in method of accounting for the Seabrook Plant, effective January 1, 1987, was to increase the 1987 pretax loss before the cumulative effect of change in Seabrook Plant accounting by $51.3 million. However, income tax benefits (in the form of reductions in accumulated deferred taxes on income which were established in recognizing the cumulative effect of the change in Seabrook Plant accounting) of $71.0 million, associated with 1987 losses from operations, resulted in an overall net decrease in the 1987 loss before the cumulative effect of the change in Seabrook Plant accounting of $19.7 million (or $0.53 per share).

The adjustment of $398.7 million (including a provision for deferred taxes on income of $98.1 million) to apply the new method retroactively was recorded as a reduction in 1987 income.

Proforma amounts adjusted for retroactive application of the change in method of Seabrook Plant accounting are as follows:

	1987	1986	1985
Proforma	(Thousands of Dollars Except Per Share Amounts)		
Net Income (Loss)	$ (87,036)	$(125,343)	$57,444
Earnings (Loss) Available for Common Stock	$(128,016)	$(166,324)	$16,463
Earnings (Loss) Per Common and Common Equivalent Share	$ (3.44)	$ (4.47)	$ 0.34
Actual	$ (14.16)	$ (6.44)	$ 2.50

Proforma Net Income (Loss) for 1986 and 1985 are reconciled to amounts reported in the Statements of Earnings as follows:

	1986	1985
	(Thousands of Dollars)	
Net Income (loss), as reported	$(198,365)	$154,742
Capitalized interest	144,634	118,011
Allowance for funds used during construction	(182,277)	(161,024)
Adjustment of Seabrook Unit 2 cancellation	34,886	-
	(201,122)	111,729
Net tax effects	75,779	(54,285)
Proforma Net Income (Loss)	$(125,343)	$ 57,444

Changes in the Unfinished Construction account for the Seabrook Plant during 1987 are summarized as follows:

	(Thousands of Dollars)
Balance December 31, 1986	$1,862,469
Additions under regulatory accounting	284,237
1987 change in Seabrook Plant accounting	
Reversal of allowance for funds used during construction	(220,356)
Capitalized interest	169,068
Prior years effect of change in Seabrook Plant accounting	
Reversal of allowance for funds used during construction	(760,761)
Capitalized interest	460,166
Balance December 31, 1987	$1,794,823

3. Losses on Generating Projects.

The components of losses on generating projects are as follows:

	1987	1986	1985
Seabrook Plant - Unit 2			
Plant costs	$ -	$318,513	$ -
Estimated cancellation costs	(468)	15,000	-
Pilgrim Plant - Unit 2	-	15,008	-
Seabrook Plant - Unit 1			
Estimated future expenditures	212,000	-	-
Millstone Unit 3	3,557	-	-
Regulatory assets	26,363	-	-
Total	$241,452	$348,521	$ -

Construction of Unit 2 of the Seabrook Plant was stopped in 1984. In 1986 the Company recognized a loss of $333.5 million when the Seabrook Joint Owners voted to relinquish to the NRC the construction permit for Unit 2 and initiated a program for the disposition of equipment having a net salvage value. Accordingly, reference herein to the Seabrook Plant refers to Unit 1 only.

As described in Note 2, in 1987 the Company changed its method of accounting for the Seabrook Plant to eliminate the effects of regulation. For the reasons described therein, management has also determined that further cost capitalization in connection with the Seabrook Plant would not be prudent and that it should therefore cease capitalization effective January 1, 1988. Accordingly, a loss of $212.0 million was recognized in 1987 associated with estimated remaining costs to be incurred prior to an assumed operating date of January 1, 1990. The loss provision of $212.0 million includes interest of $70 million relating principally to interest on secured debt. It does not include a provision for interest on unsecured debt after January 28, 1988. See Note 1 and the note at the bottom of the Statements of Earnings.

In 1987 the Company also expensed $3.6 million of its investment in Millstone Unit 3 as a result of an order from the NHPUC based on prudency audits completed for another regulator in the State of Connecticut. The Company also expensed regulatory assets of $26.4 million primarily related to previously deferred rate case expenses and the cost of converting a generating facility to burn oil or coal. In addition, the Company expensed $6.1 million of accumulated costs for the unconsummated exchange offer.

The amounts above do not include any provision for additional impairment of the Seabrook Plant due to market conditions or the reorganization of the Company, as the variables needed to calculate such additional impairment are not estimatable at this time.

4. Summary of Accounting Policies

Regulation. During the pendency of bankruptcy proceedings the Company and its properties are subject to the jurisdiction of the Bankruptcy Court. Subject to the foregoing, the Company is subject, as to rates, accounting and other matters, to the regulatory authority of the NHPUC, the Federal Energy Regulatory Commission and, to a lesser extent, the public utilities commissions in other New England states where the Company does business.

Investments. The Company follows the equity method of accounting for its investments in nuclear generating companies and a wholly-owned real estate subsidiary. The Company owns four to seven percent of each of four New England nuclear generating companies and, pursuant to purchased power contracts, is entitled to its ownership percent of total plant output and is obligated to pay a similar share of operating expenses and returns on invested capital. Approximately 6.9%, 7.5%, and 8.8% of the Company's total energy requirements were furnished by these companies in 1987, 1986, and 1985, respectively.

Utility Plant. Provision for depreciation of utility plant is computed on a straight-line method at rates based on estimated service lives and salvage values of the several classes of property. The depreciation provisions were equivalent to overall effective rates of 3.56%, 3.90%, and 3.93% of depreciable property for 1987, 1986, and 1985, respectively.

Maintenance and repairs of property are charged to maintenance expense. Replacements and betterments are charged to utility plant. At the time properties are retired, the cost of property retired plus costs of removal less salvage are charged to the accumulated provision for depreciation.

Operating Revenues. Revenues are based on billing rates, authorized by applicable regulatory commissions, which are applied to customers' consumption of electricity. These rates include estimates of the cost of energy incurred by the Company in the generation or purchase of electricity. To the extent that energy cost estimates differ from actual costs incurred, the differences are deferred and refunded or charged to customers through periodic rate adjustments. The Company records an estimate of revenue for service rendered but not billed.

A bonded rate increase of 14% was effected January 1, 1987. On June 29, 1987 the NHPUC approved a 4.7% rate increase in lieu of the requested 14% bonded rate increase. Refunds were paid in November 1987.

Allowance for Funds Used During Construction (AFUDC). AFUDC is the estimated cost, during the period of construction, of funds invested in the construction program which is not recovered from customers through current revenues. Such allowance is not realized in cash currently but under the rate making process the amount of the allowance is expected to be recovered in cash over the service life of the plant in the form of increased revenue collected as a result of higher plant costs. The Company capitalized AFUDC at net-of-tax annual rates of 11.7% for 1986 and 12.1% for 1985. In 1987, the Company changed its method of accounting for its investment in the Seabrook Plant to eliminate AFUDC from capitalized costs and to recognize capitalized interest and associated income tax effects. (See Note 2).

Capitalized Interest. As described in Note 2, the Company adjusted the cost basis of its investment in the Seabrook Plant to eliminate AFUDC and to substitute therefor capitalized interest, which is the accounting treatment used by non-regulated enterprises. Total interest expense, less the estimated amount applicable to regulated operations, has been allocated to the Seabrook Plant in the proportion that it represents of total construction work in progress.

Earnings Per Common and Common Equivalent Share. In 1987 and 1986 the loss per common share was calculated by dividing earnings available for common stock by the weighted average number of shares of common stock outstanding. Earnings per common and common equivalent share was calculated in 1985 by adjusting earnings available for common stock for the (i) reduction in interest expense that would result from the application of the proceeds from the assumed exercise of 18,372,999 common stock purchase warrants, at an exercise price of $5 per share, in excess of those proceeds used to repurchase 20% of the Company's outstanding shares of common stock, to the reduction of outstanding long-term debt and (ii) the resulting change in AFUDC. The resulting earnings available for common stock was then divided by the weighted average number of common stock outstanding and common stock assumed to be outstanding upon the exercise of warrants and assumed repurchases of common stock.

5. Defaults on Debt Securities

Since October 13, 1987 the Company has suspended the payment of interest on its Debentures, short-term Floating Rate Notes and a Promissory Note Due 1988. The table below indicates the debt securities which were subject to payment or cross-defaults at December 31, 1987:

	Principal	Accrued Interest	Total
	(Thousands of Dollars)		
15% Debentures, Due 2003	$100,000	$ 9,375	$ 109,375
17 1/2% Debentures, Due 2004	425,000	52,682	477,682
12 1/4 - 13 3/4% Pollution Control Revenue Bonds Due 1988 - 2003	20,000	1,546	21,546
15 3/4% Debentures, Due 1988	75,000	2,953	77,953
14 3/8% Debentures, Due 1991	100,000	5,990	105,990
Nuclear Fuel Obligation, Due 1991	45,000	-	45,000
Eurodollar Term Loan, Due 1991	45,000	-	45,000
Promissory Note, Due 1991	22,500	-	22,500
Floating Rate Notes, Due 1988	100,000	4,834	104,834
Promissory Note, Due 1988	18,437	321	18,758
Total	$950,937	$ 77,701	$1,028,638

Of the debt in default, $850,937,000 was reclassified from long-term debt to current liabilities resulting in a significant reduction in working capital at December 31, 1987. In the 1987 Statement of Changes in Financial Position the funds provided by the decrease in working capital have been eliminated because payments, if any, of such debt are subject to the approval by the Bankruptcy Court of a reorganization plan (see Note 1) and such exclusion provides more relevant funds flow information for 1987. Accrued interest on debt in default, current maturities of long-term debt, preferred stock redemption due currently and other prepetition obligations of the Company have been included as components of working capital in 1987 to enhance the comparability of the Statements of Changes in Financial Position for all years presented.

6. Commitments and Contingencies

The Company is the principal owner (about 35.6%) of a nuclear-fueled steam-electric generating plant located in Seabrook, New Hampshire. Seabrook Unit 1 was completed in 1986 and at that time the Nuclear Regulatory Commission ("NRC") granted a 40-year operating license subject to certain conditions.

At December 31, 1987, the Company's investment in the Seabrook Plant was approximately $1.8 billion representing 68% of the Company's total assets. Because of the New Hampshire anti-CWIP Statute, no part of the Company's investment in the Seabrook Plant has been reflected in the Company's rates to date. While it is uncertain when, if at all, the Seabrook Plant will commence operation, the Company has assumed for its current financial forecast purposes a date of January 1, 1990. Effective December 31, 1987 the Company ceased capitalization of Seabrook costs and recorded a reserve for future expenditures. See Note 3.

Although the Seabrook Plant is complete and ready for operation, the NRC's current regulations will not permit full power operation until radiological emergency response plans are approved and in place for cities and towns within a ten-mile radius of the Plant. This area includes 17 towns in New Hampshire and six in Massachusetts. The process of developing such plans has become widely politicized. A New Hampshire plan was submitted by the State of New Hampshire and is under review by federal agencies. The Joint Owners of the Seabrook Plant have been attempting to complete the process by seeking NRC approval of a plan prepared without the cooperation

of Massachusetts authorities, who refuse to participate. Continued opposition at the regulatory level and through court appeals is likely. Because of the uncertainties arising out of the politicizing of the process of obtaining NRC approval of the Plant's operation, it is not possible to predict when or if operation will in fact occur.

The Company continues to believe that the Seabrook Plant is a needed energy source for the New England region. The Company also believes that successful operation of the Seabrook Plant and its reflection in rates is a necessary element to maximize recovery for the Company's security holders. The Company will therefore, as long as resources are available, continue to fund its share of Plant expenditures unless ordered by the Bankruptcy Court to reduce or cease such funding. It is anticipated that the continued funding of the Seabrook Plant may be opposed by certain of the Company's creditors.

The Company has very substantial non–Seabrook capital requirements to satisfy if it is to provide adequate service to its fast growing service area. The Company's non-Seabrook construction program for the five–year period 1988–1992 is currently estimated to be approximately $314,100,000 and its share of the pre–operational testing and other Plant capital additions is estimated to aggregate $178,700,000, based on an operation date for the Seabrook Plant of January 1, 1990, which has been assumed for financial planning purposes. The Company cannot predict when, if at all, the Plant will commence operation.

7. Income Taxes

The components of Income Tax Expense (Benefit) are as follows:

	1987	1986	1985
		(Thousands of Dollars)	
Included in Operating Expenses			
Current–Federal	$ 25,342	$ 32,064	$ 31,444
-State	(1,314)	1,602	1,525
	24,028	33,666	32,969
Deferred-Federal	10,839	9,953	13,607
Investment Tax Credit Adjustments	734	(511)	(469)
	$ 35,601	$ 43,108	$ 46,107
Included in Other Income and Deductions			
Current-Federal	$ (26,706)	$(32,064)	$(36,348)
Current-State	(608)	(1,603)	(1,522)
Deferred-Federal	(81,164)	(39,653)	(27,184)
	$(108,478)	$(73,320)	$(65,054)
Total Income Tax Expense (Benefit) -Federal	$ (70,955)	$(30,211)	$(18,950)
-State	(1,922)	(1)	3
	$ (72,877)	$(30,212)	$(18,947)

At December 31, 1987 the Company has, for tax purposes, a net operating loss carryforward of approximately $500 million expiring between the years 2000 and 2002. Investment tax credits utilized are deferred and amortized to income over the lives of the related properties. At December 31, 1987 the Company had investment tax credit carryforwards of $65.0 million which expire between 1994 and 2001. As described in Note 1, the Company has filed for protection under Chapter 11 of the United States Bankruptcy Code. A reorganization of the Company under Chapter 11 may severely limit the usage of net operating loss and investment tax credit carryforwards and they may expire unused.

The tax effect of differences between pretax income in the financial statements and income subject to tax, which are the result of timing differences, are accounted for as prescribed by and in accordance with the rate making policies of the NHPUC except for the Company's investment in the Seabrook Plant. Accordingly, provisions for deferred income taxes are recognized for all timing differences specified by the NHPUC and, as a result of the change in method of Seabrook Plant accounting discussed in Note 2, for all timing differences associated with the Seabrook Plant. Taxes attributable to other timing differences are flowed through to net income as adjustments to income tax expense. As of December 31, 1987 the Company had not provided cumulative deferred taxes of approximately $36,000,000 relating to various tax deductions which had been flowed through. The principal timing difference which has been flowed through is the excess of tax over book depreciation for assets placed in service before 1971. Provisions for deferred income taxes are summarized as follows:

	1987	1986	1985
		(Thousands of Dollars)	
Provision for Future Seabrook Expenditures	$(84,800)	$ -	$ -
Capitalized Interest	66,709	-	-
Normalized Timing Differences Relating to Plant	13,310	13,742	9,425
Deferred Fuel Costs	2,332	(1,530)	5,257
Excess of Tax over Book Unused Net Operating Loss Carryforward	(51,201)	(45,245)	(24,733)
Rate Differential on Book Net Operating Loss Used	(9,131)	-	-
Other	(7,544)	3,333	(3,526)
	$(70,325)	$(29,700)	$(13,577)

The principal reasons for the differences between total income tax expense and the amount calculated by applying the federal income tax rate (40% for 1987 and 46% for 1986 and 1985) to income before income tax and the cumulative effect of change in Seabrook Plant accounting are as follows:

	1987	1986	1985
		(Thousands of Dollars)	
Income (Loss) Before Income Tax and the Cumulative Effect of Change in Seabrook Plant Accounting	$(159,913)	$(228,577)	$ 135,795
Expected Tax Expense	$ (63,965)	$(105,145)	$ 62,466
Increase (Reductions) in Taxes Resulting From			
AFUDC Equity	(473)	(57,361)	(53,465)
Net-of-Tax Method of Recording AFUDC	(443)	(32,006)	(27,403)
Reversal of AFUDC on Cancelled Nuclear Projects	-	49,395	-
Difference Between Book and Tax Depreciation-Not Normalized	2,882	3,018	2,343
Other Deductions and Adjustments	(1,747)	(1,660)	(2,888)
Unused Book Net Operating Loss	-	113,547	-
Additional Book Net Operating Loss Carryback Benefit	(9,131)	-	-
Total Income Tax Expense (Benefit)	$ (72,877)	$ (30,212)	$ (18,947)

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96 "Accounting for Income Taxes". Adoption of this statement, which is effective for fiscal years beginning on or after December 15, 1988, will require the Company to change from the deferred method to the liability method of accounting for income taxes. The liability method accounts for deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to differences between the book basis and the tax basis of assets and liabilities. The Company plans to adopt this statement in 1989 on a prospective basis. At this date

8. Short-Term Borrowings

Short-term debt outstanding at December 31, 1987, other than those amounts classified as current through default, consists of $100,000,000 principal amount of unsecured floating rate promissory notes due May 1, 1988. There was no short-term debt outstanding at December 31, 1986 and 1985.

Information regarding short-term borrowings is as follows:

	1987	1986	1985
		(Thousands of Dollars)	
Maximum Short-Term Borrowings	$100,000	$70,000	$145,000
Average Amount Outstanding	$ 61,096	$ 6,137	$ 83,048
Average Interest Rate (Including Fees)			
At Year End	21.85%	-	-
During the Year	21.85%	18.31%*	13.41%

* Does not include commission and prepayment premium aggregating $2,800,000.

9. Postemployment Benefits

Pension Plan. The Company has a defined non-contributory pension benefit plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the highest consecutive five years of earnings of the last ten years of employment. The Company's policy is to fund the minimum amount required. Costs were $6,368,000(excluding the cost of the early retirement program described below), $5,148,000 and $5,343,000 in 1987, 1986 and 1985, respectively. Contributions are intended to provide for benefits attributed to service to date and for benefits expected to be earned in future years. The assets of the plan primarily include United States Government Bonds, other bonds which are of investment grade, and stocks of publicly traded companies.

There were two changes to the pension plan in 1987. Effective August 1, 1987, the vesting requirement was reduced from ten to five years of employment. Also in 1987, an early retirement incentive program was offered as part of the Company's cost cutting efforts. Employees who had attained age 55 and had completed twenty years of service by August 1, 1987 were eligible to elect by August 31, 1987 to retire as of September 16, 1987. Employees electing to retire pursuant to the plan received an addition of five years to both age and length of service in determining pension benefits, and a temporary monthly supplement of $550. Employees in certain positions have been retained for a period up to six months. The cost of this program, $5,116,000, was recognized in 1987.

Net pension cost for fiscal year 1987 included the following components:

	(Thousands of Dollars)
Service Cost for Benefits Earned During the Year	$ 5,244
Interest Cost on Projected Benefit Obligation	8,142
Actual Return on Plan Assets	(4,630)
Net Amortization and Deferral	(2,388)
Net Periodic Pension Cost	$ 6,368

The following table sets forth the plan's funded status:

	December 31, 1987	January 1, 1987
	(Thousands of Dollars)	
Actuarial Present Value of Benefit Obligations:		
Accumulated Benefit Obligation, Including Vested Benefits of $74,422 at December 31, 1987 and $61,436 at January 1, 1987	$ 79,817	$ 66,512
Additional Benefits Related to Future Compensation Levels	39,566	37,040
Projected Benefit Obligation for Service Rendered to Date	119,383	103,552
Assets Available for Benefits	90,249	89,071
Projected Benefit Obligation in Excess of Plan Assets	29,134	14,481
Unrecognized Net Transition Obligation	8,812	9,333
Unrecognized Net (Gain) or Loss from Past Experience Different From that Assumed and Effects of Changes in Assumptions	3,689	-
Accrued Pension Costs	$ 16,633	$ 5,148

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 8 percent and 6 percent, respectively. The assumed investment rate of return was 8.5 percent.

Health and Life Insurance. The Company provides certain health and life insurance benefits for employees. Substantially all of the Company's employees may become eligible to continue those benefits if they reach retirement age while working for the Company. Those benefits are provided or administered through insurance companies whose premiums or charges are based on the benefits paid during the year. The Company recognizes the cost of providing those benefits by expensing the annual insurance premiums, which were approximately $1,260,000 and $1,200,000 for retired employees in 1987 and 1986, respectively.

10. Leases

The Company has a leasing agreement for a portion of the nuclear fuel for the Seabrook Plant. This agreement has been capitalized for financial reporting purposes. Additionally, the Company leases certain property from a wholly-owned real estate subsidiary.

Rentals charged to expense in 1987, 1986 and 1985 were $4,814,000, $4,772,000 and $4,332,000 respectively, including rentals to the wholly-owned real estate subsidiary of $1,170,000 in 1987. At December 31, 1987, estimated future minimum lease payments for non-cancellable operating leases were as follows:

1988	$ 6,561,000
1989	5,642,000
1990	4,713,000
1991	3,948,000
1992	3,398,000
Thereafter	24,697,000
	$48,959,000

11. Unaudited Quarterly Information

The following quarterly information is unaudited, and, in the opinion of management, is a fair summary of results of operations for such periods. The 1987 quarterly information has been restated to reflect the effects of the change in Seabrook Plant accounting. Variations between quarters reflect the seasonal nature of the Company's business.

	Three Months Ended							
	December 31,		September 30,		June 30,		March 31,	
	1987	1986	1987	1986	1987	1986	1987	1986
	(Thousands except Per Share amounts)							
Operating Revenues	$146,347	$119,636	$135,442	$111,723	$114,099	$116,640	$153,220	$157,191
Operating Income	25,734	22,649	24,655	14,735	16,109	16,098	31,650	30,406
Losses on Generating Projects	(241,452)	5,000	-	-	-	(353,521)	-	-
Net Income (Loss)	(202,449)	43,725	35,882	32,687	18,615	(322,160)	(337,735)	47,383
Cumulative Effect of Change in Seabrook Plant accounting	-	-	-	-	-	-	(398,651)	-
Preferred Dividend Requirements	10,245	10,246	10,245	10,245	10,245	10,245	10,245	10,245
Earnings (Loss) Available for Common Stock	(212,694)	33,479	25,637	22,442	8,370	(332,405)	(347,980)	37,138
Weighted Average Common and Common Equivalent Shares	37,194	48,128	48,128	48,128	48,128	37,194	37,194	48,128
Earnings (Loss) Per Share	$ (5.72)	$ 0.72	$ 0.58	$ 0.49	$ 0.21	$ (8.93)	$ (9.36)	$ 0.78
Proforma Amounts:								
Net Income (Loss)	(202,449)	17,710	35,882	7,907	18,615	(170,938)	60,916	19,978
Earnings (Loss) Per Share	(5.72)	0.16	0.58	(0.06)	0.21	(4.87)	1.05	0.20

See Notes 2 and 3 for a discussion on the change in Seabrook Plant accounting and losses on generating projects.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Public Service Company of New Hampshire:

We have examined the balance sheets and statements of capitalization of Public Service Company of New Hampshire as of December 31, 1987 and 1986 and the related statements of earnings, changes in financial position and changes in common stock equity for each of the years in the three-year period ended December 31, 1987. 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.

As more fully discussed in Note 1, on January 28, 1988 the Company filed a voluntary petition for protection under Chapter 11 of the United States Bankruptcy Code. The Company's filing was a result of insufficient cash generated by the Company's operations to satisfy its capital requirements and to pay interest as it came due on the Company's outstanding indebtedness. The Company is now operating its business as a debtor-in-possession and will participate in developing a plan of reorganization, which must be approved by the Bankruptcy Court, designed to permit the Company to settle prepetition liabilities. In our report dated February 12, 1987 on the Company's 1986 and 1985 financial statements, we reported that the Company had a substantial investment in Seabrook Unit 1 and that achieving commercial operation of the unit and obtaining adequate rate increases upon its commercial operation were necessary for the Company to maintain its financial viability. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the foregoing matters.

In our opinion, subject to the effects on the financial statements of such adjustments as might have been required if the outcome of the matters about the recoverability and classification of recorded asset amounts and the amounts and classification of liabilities referred to in the preceding paragraph been known, the aforementioned financial statements present fairly the financial position of Public Service Company of New Hampshire at December 31, 1987 and 1986 and the results of its operations and changes in its financial position for each of the years in the three-year period ended December 31, 1987, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of accounting for its investment in the Seabrook Plant as described in Note 2 to the financial statements, have been applied on a consistent basis.

PEAT MARWICK MAIN & CO.

Boston, Massachusetts
February 26, 1988

Selected Financial Data

	1987	1986	1985	1984	1983
	(Thousands of Dollars Except Per Share Amounts and Ratios)				
Operating Revenues	$ 549,108	$ 505,190	$ 519,740	$ 525,585	$ 463,484
Fuel and Purchased Power Expense	221,142	217,644	247,809	258,316	234,971
Operating Income	98,148	83,888	81,173	87,244	68,150
Total AFUDC	2,291	194,275	175,799	144,033	137,347
Capitalized Interest	169,068	-	-	-	-
Losses on Generating Projects	(241,452)	(348,521)	-	-	-
Income (Loss) Before Cumulative Effect of Change in Seabrook Plant Accounting	(87,036)	(198,365)	154,742	156,500	151,658
Per Share:					
Earnings (Loss) Before Cumulative Effect of Change in Seabrook Plant Accounting	(3.44)	(6.44)	2.50	3.07	3.49
Dividends	-	-	-	0.53	2.12
Proforma Amounts:*					
Net Income (Loss)	(87,036)	(125,343)	57,444	70,470	58,443
Earnings (Loss) Per Share	$ (3.44)	$ (4.47)	$ 0.34	$ 0.78	$ 0.75
Shares of Common and Common Stock Equivalents Outstanding (Average)	37,194	37,194	48,128	37,920	34,026
Unfinished Construction	$ 1,813,369	$ 1,874,289	$ 1,989,164	$ 1,691,455	$ 1,398,134
Total Assets	2,639,391	2,707,844	2,662,384	2,565,283	2,085,783
Long-Term Debt	540,888	1,372,585	1,089,922	999,601	726,777
Debt and Accrued Interest in Default	1,028,638	-	-	-	-
Preferred Stock with Mandatory Redemption Requirements	417,798	380,389	272,840	272,340	272,840
Total Capitalization	1,214,609	2,542,802	2,467,555	2,228,661	1,811,408
Short-Term Debt	$ -	$ -	$ -	$ 145,485	$ -

* Adjusted for retroactive application of the change in method of Seabrook Plant accounting. See Note 2 of Notes to Financial Statements.

Operating Statistics

Customer Data (Average)					
Total Customers	358,619	342,414	322,656	309,464	298,078
KWH Per Residential Customer	7,181	7,119	6,989	7,067	6,944
Cents Per KWH-Residential	9.51	8.85	9.24	9.78	9.13
Prime Sales (Thousands of MWH)					
Residential	2,253	2,135	1,978	1,917	1,819
Industrial	2,224	2,099	2,046	1,920	1,818
Commercial and Other	1,967	2,399	2,425	2,322	2,169
Total Prime Sales	6,444	6,633	6,449	6,159	5,806
Generating Capability - MW					
Coal	647	622	622	465	465
Oil	564	595	595	749	743
Hydro	69	69	69	65	65
Nuclear	131	131	98	98	98
Peak Load - Net MW	1,343	1,375	1,320	1,202	1,220

Common Stock Market Prices

	1987		1986	
	High	Low	High	Low
First Quarter	9 3/8	8 1/8	11 3/8	8
Second Quarter	8 3/8	4 5/8	11 3/8	7 3/4
Third Quarter	6 1/4	3 3/8	10	7 3/4
Fourth Quarter	4 1/8	2 1/4	9 1/2	7 3/8

Directors

Hilary P. Cleveland
Lecturer
Colby Sawyer College
New London, NH

George A. Dorr, Jr.
President
Dorr Fabrics, Inc.
Newport, NH

John C. Duffett
Executive Vice President and Chief Operating Officer of the Company
Manchester, NH

Philip S. Dunlap
President, Treasurer
N.H. Automatic Equipment Corporation
Concord, NH

Robert J. Harrison
President and Chief Executive Officer of the Company
Manchester, NH

Fred B. Roedel
President & Founder
Chalet Susse International, Inc.
Wilton NH

Philip B. Ryan
Vice President
The Bigelow Company Inc.
Manchester, NH

William J. Scharffenberger
President and Chief Executive Officer
Wheeling–Pittsburgh Steel Corporation
Wheeling, W. Va.

John T. Schiffman
Partner
Smith, Batchelder & Rugg
Lebanon, NH

William M. Scranton
Management Consultant
Keene, NH

Edward M. Shapiro
Self-employed
Manchester, NH

William C. Tallman
Former Chairman of the Company
Manchester, NH

Hugh C. Tuttle
Treasurer
Tuttle Market Gardens, Inc.
Dover, NH

Officers

Robert J. Harrison, 56 (31)
President and Chief Executive Officer

John C. Duffett, 60 (34)
Executive Vice President and Chief Operating Officer

Charles E. Bayless, 45 (7)
Financial Vice President

D. Pierre G. Cameron, Jr., 54 (7)
Vice President and General Counsel

John P. Edwards, 46 (2)
Vice President for Public Affairs

William B. Derrickson, 47 (3)*
Senior Vice President–Nuclear Energy

Roy G. Harbour, 60 (24)**
Vice President

George Branscombe, 40 (8)
Vice President and Treasurer

Ted C. Feigenbaum, 37 (2)
Vice President–New Hampshire Yankee Division

William T. Frain, Jr., 46 (23)
Vice President

Warren A. Harvey, 62 (40)**
Vice President

Ralph S. Johnson, 44 (19)
Vice President

Earl G. Legacy, 55 (28)****
Vice President

James L. Nevins, 53 (20)
Vice President

Robert A. Parks, 42 (19)
Vice President

George S. Thomas, 45 (7)
Vice President–Nuclear Production

Frederick R. Plett, 41 (21)
Assistant to the President

John J. Lampron, 44 (16)
Assistant Vice President

Robert G. Ouellette, 56 (36)**
Comptroller

Bruce W. Wiggett, 41 (13)***
Comptroller

Russell A. Winslow, 53 (26)
Secretary

Kathlyne M. Davis, 34 (11)
Assistant Treasurer

O. Kay Jones, 32 (10)
Assistant Secretary

Dennis D. Race, 39 (6)
Assistant Treasurer

Kevern R. Joyce, 41 (5)****
Assistant Comptroller

Paul E. Ramsey, 34 (12)
Assistant Comptroller

Divisional Officer

Edward A. Brown, 58 (3)
President and Chief Executive Officer - New Hampshire Yankee Division

* Resigned effective 1/1/88
** Retired effective 3/31/88
*** Promoted from Assistant Comptroller effective 4/1/88
**** Elected effective 4/1/88
__( ) Denotes age and years of service

PUBLIC SERVICE OF NEW HAMPSHIRE

Annual Meeting of Shareowners

All shareowners are invited to attend the Annual Meeting to be held on Monday, June 27, 1988, at 9:30 a.m. at the Sheraton-Tara Hotel Ballroom, Nashua, NH (Route 3–Everett Turnpike, Exit 1 to Tara Blvd.). During the meeting there will be an opportunity to discuss matters of interest pertaining to the Company.

Annual Report on Form 10-K

For those who wish, the Company will furnish, without charge, to each shareowner who makes a request, a copy of the Company's 1987 Annual Report on Form 10-K as filed with the Securities and Exchange Commission. Requests should be directed to George Branscombe, Vice President and Treasurer, Public Service of New Hampshire, P.O. Box 330, Manchester, NH 03105

Annual Report

The 1987 Annual Report has been approved by the Board of Directors. Shareowners who have questions concerning the Annual Report or the Company should direct their requests in writing to Russell A. Winslow, Secretary, Public Service of New Hampshire, P.O. Box 330, Manchester, NH 03105

Stock Exchange Listing

Shares of the $5 par value Common Stock and $25 par value Preferred Stock are listed on the New York Stock Exchange. Shares of the $5 par value Common Stock and warrants to purchase shares of the Company's Common Stock are listed on the Pacific Stock Exchange. The Company's symbol on both exchanges is PNH.

Common Stock Ownership

As of December 31, 1987, there were 44,870 record owners of shares of the Company's Common Stock.

Shareowner Inquiries

Shareowner inquiries regarding change of address, stock transfer requirements, lost or stolen certificates, or other account information should be directed to the Transfer Agent as follows:

The First National Bank of Boston
Shareholder Services Division
P.O. Box 644
Boston, MA 02102

Transfer Agents

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

Manufacturers Hanover Trust Company
4 New York Plaza
New York, NY 10015

Registrars

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

Morgan Shareholder Services Trust Company
30 West Broadway
New York, NY 10015

PSNH

Public Service of New Hampshire
1000 Elm Street, Box 330
Manchester, NH 03105
(603) 669-4000