Unitil Energy Systems, Inc.
DE 10-055

Supplementary Filing Requirements
Pursuant to Puc 1604.01(a)

In accordance with Puc 1604.01(a), please provide:

(25) If a utility is a subsidiary, duplicates of all items required by this section for the parent company except as provided in (26) below;

(25.02) Annual reports to stockholders and statistical supplements, if any, for the most recent 5 years;

Response:

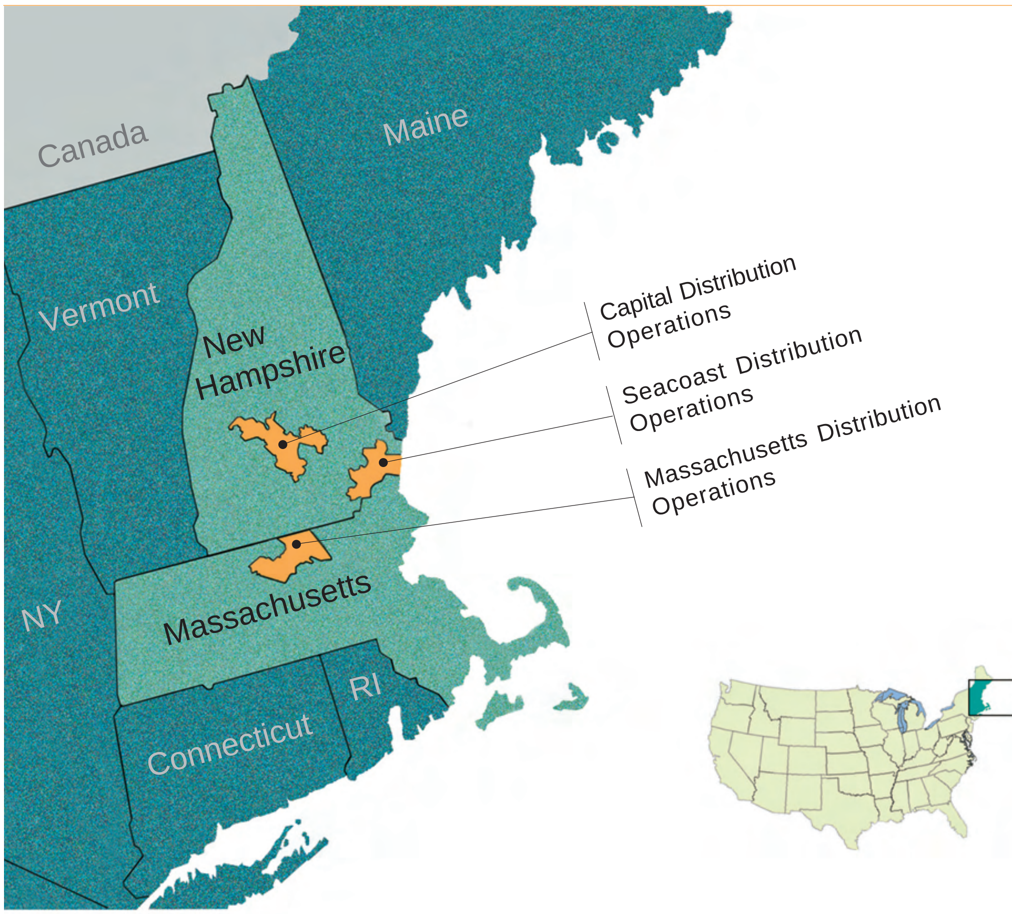
Please see the attached for copies of Unitil Corporation's annual reports to stockholders for the years 2005 through 2009.

Unitil

We deliver. It's that simple.

Annual Report 2005

Unitil Distribution Service Territories



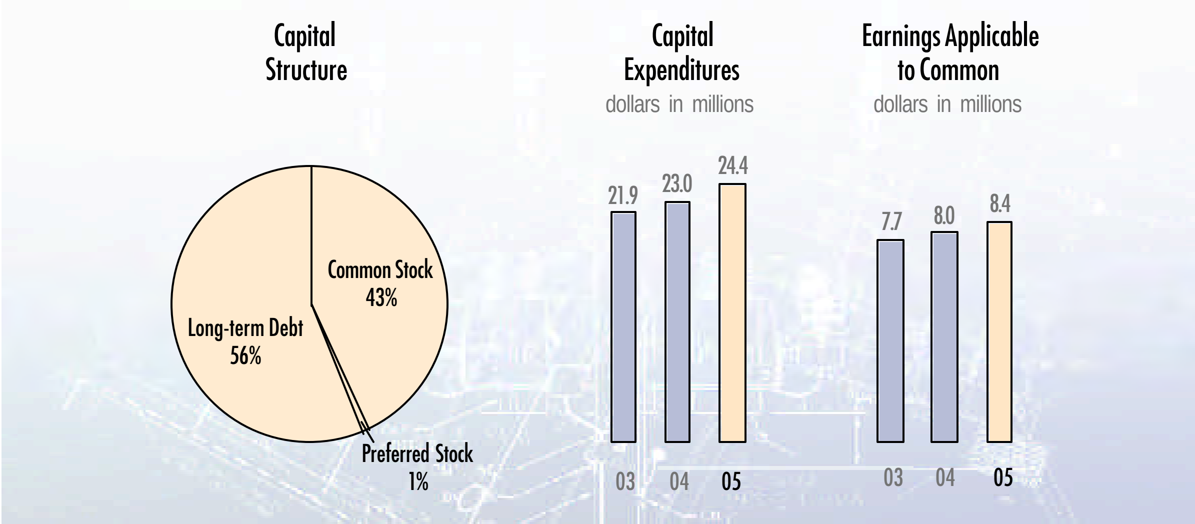
About the Company

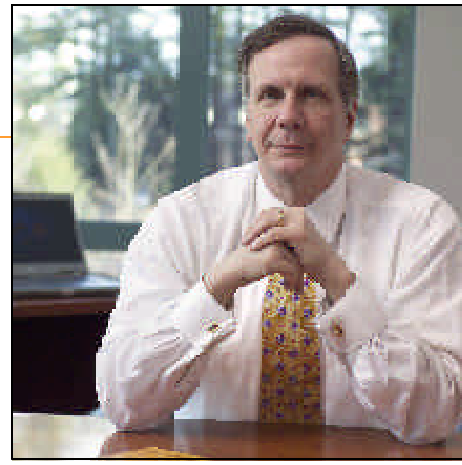
Unitil (AMEX: UTL) is a public utility holding company with regulated utility subsidiaries providing electric service in New Hampshire and electric and natural gas service in Massachusetts. The Company also provides energy brokering and consulting services through its non-utility subsidiary.

Additional information is available on line at www.unitil.com. Unitil's subsidiaries include Fitchburg Gas and Electric Light Company, Unitil Energy Systems, Inc., Unitil Power Corp., Unitil Realty Corp., Unitil Service Corp., Unitil Resources, Inc., and its non-utility unregulated business, Usource.

Financial Highlights

	2005	2004	2003
Financial Data (000's)			
Total Operating Revenues	**$ 232,145**	$ 214,137	$ 220,654
Total Operating Income	**$ 15,541**	$ 15,193	$ 15,449
Earnings Applicable to Common	**$ 8,397**	$ 8,011	$ 7,722
Capital Expenditures	**$ 24,367**	$ 22,922	$ 21,939
Common Share Data			
Diluted Earnings per Share	**$ 1.51**	$ 1.45	$ 1.58
Dividends Paid per Share	**$ 1.38**	$ 1.38	$ 1.38
Book Value per Share (Year-end)	**$ 17.21**	$ 17.00	$ 16.87
Market Price (Year-end)	**$ 25.16**	$ 28.30	$ 25.80
Average Common Shares Outstanding (000's)	**5,568**	5,525	4,896
Operating Data			
Electric Distribution Sales (mWh)	**1,790,405**	1,742,131	1,717,664
Firm Gas Distribution Sales (000's of Therms)	**24,332**	23,151	24,592
Customers Served (Year-end)	**113,593**	112,288	110,916





During 2005, Unitil completed its key objectives for the year and posted solid financial performance, with earnings up almost 5% over 2004.

Earnings per share increased to $1.51, while sales of electricity grew 2.8% over 2004, and sales of natural gas grew 5.1%. Capital investments in our gas and electric systems reached a new record of $24 million, an increase of 6.3% over 2004. Usource, our unregulated energy brokerage business, achieved profitability, growing revenues to $2 million, an increase of more than 30% over 2004.

These financial statistics tell a good story about Unitil in a back-to-basics industry environment. Our operating statistics also speak well of our accomplishments in 2005. Despite an unusually high number of storms, Unitil performed among the best in peer group benchmarking for electric system reliability in 2005. In addition, even in the midst of record-high energy prices, our customer satisfaction survey scores remained well above national and regional averages.

Challenges to our industry — and to our business — remain. We provide the lowest-cost energy distribution services in the region, but record-high energy prices impact all our customers, and energy supply is by far the largest single component of our customers' bills. Our energy procurement process helps assure the best supply prices possible. However, wholesale energy costs, which we do not control, are driven by global market forces, and those prices impact what matters most to customers – the bottom line total bill.

Some signs of price settling have occurred recently in domestic natural gas markets, as the industry recovers from the fall hurricanes. In time, wholesale electricity market prices are expected to follow. Oil markets continue to show instability, however, and the geopolitical stage is as uncertain as it ever was.

Turbulent energy prices can increase legislative and regulatory uncertainty. Fortunately, the two states in which we operate our distribution systems — Massachusetts and New Hampshire — have maintained their strong and consistent commitment to energy cost recovery. In New Hampshire, legislation was passed this fall to assist low-income customers with their energy bills. Regulatory support for the continued transition to competitive energy supply markets also remains intact. We strongly believe that competitive energy markets are the best long-term solution for our customers.

Two additional challenges are the rapidly changing nature of technology and the aging of the utility work force. Efficiency and productivity, undeniably the key drivers behind continued long-term economic growth, demand new techniques, new systems, new technologies, and new business processes. The aging of the utility workforce means preserving key technical and institutional knowledge and finding replacement workers with the skills to use technology to do more with less. Integrating people and technology has become a fundamental and critical business objective. It is a priority in Unitil's strategic plan for 2006.

The Intersection of Technology & People

Meter reading is a key utility function. Metering equipment must be installed on each customer account, and monthly meter readings become the starting point for the Company's revenue cycle and cash flow. Remarkably, the core technology for metering electric and gas consumption has remained essentially unchanged for nearly a century. At Unitil, that is all about to change.

In 2006, Unitil will be installing, testing, and deploying an advanced metering infrastructure that will provide automated, two-way meter reading capability for all of Unitil's customers. The system utilizes a power-line-carrier information transmission technology to collect data from metering endpoints. It gathers the data at the substation level and transmits it digitally to a central processor, which generates it in usable form. This system replaces all the trucks, hand-held data recorders, related equipment, and meter readers in our three distribution areas.

This project is the single largest capital investment, and the single largest workforce transition in the Company's history. It will generate significant cost savings, and it will significantly improve service to customers and provide an advanced technology platform capable of additional enhancements in the years ahead. Estimated meter reads, for example, will be a thing of the past.

This technology also provides an answer to a critical workforce transition issue – the pending retirement of a large number of our utility workers. By committing to retrain and redeploy displaced meter readers to positions vacated by retirements, Unitil will avoid laying off good workers and will be able to offer them advancement opportunities. It is a win/win for the Company and our employees.

Technology Changes Regulation

As a regulated utility, Unitil is required to petition its state regulators before it makes any changes in its services or prices. Traditionally, such changes have been made in the context of formal rate cases — laborious and complicated proceedings conducted every few years, as utility revenues and costs have changed through time. For a variety of reasons, these very traditions have changed.

One important reason for the change is the development of sophisticated data management and analysis tools and techniques over the past two decades. As a result, regulators are able to obtain more data and more sophisticated analyses, and to require faster compliance. Utilities are able to analyze trends and file requests more quickly, and with a far higher degree of accuracy.

Traditional regulation has relied heavily on the concepts of ebb and flow in helping to provide incentives to regulated utilities. The "ebb and flow" concept recognized that actual costs and revenues would vary through time, but presumed that such changes would tend to be offsetting and would encourage utilities to be cost conscious.

As computers and the software for data management have become more powerful and sophisticated over time, utilities and regulators have been able to improve on the rate process. They have linked rate recovery of specific cost items to actual costs, with the technique of reconciling cost recovery mechanisms, or cost trackers. Originally put in place to address rapid fluctuations in fuel costs, cost trackers have now become accepted tools for recovery of the costs of energy supply, energy transmission, environmental remediation, energy contract administration, energy efficiency, low-income discounts, and pension and post-retirement benefits. Unitil administers 31 cost mechanisms in its two jurisdictions. These mechanisms help us better meet our obligations to serve customers.

Technology Changes the Work that People Do

Building and operating a gas or electric distribution system is a complex engineering undertaking that requires sophisticated maps, tools, and analyses. A generation ago, the single most important tool for engineers was a slide rule. Today, Unitil's engineering staff relies on advanced computerized databases and analytical software that demand new skills and new approaches to the same job – designing, planning, testing, evaluating, mapping, and maintaining the Company's core assets.

One of the tools that has become relatively commonplace is CAD – computer aided design. CAD vastly simplifies the tasks of mapping, designing, and analyzing our systems and provides new and expanded capabilities in system engineering and design. The latest new development goes far beyond, however, by linking the Company's engineering and system data together with the Company's customer, operations, and accounting data, through a geographical information system, or GIS.

GIS provides the capability to integrate all of the Company's asset-related functions, from engineering, design, and mapping, through project estimation and materials ordering, field construction, and plant accounting. What was once largely a process of manual, human communication and information transfer between these functions is being digitized and automated.

The productivity and efficiency improvements enabled by the GIS technology are transformational. Analytical sophistication, data accuracy and integrity, and financial controls are significantly enhanced, and the knowledge, training, and skills of our employees are at a much higher level. We now have the ability to get an instantaneous real-time picture of our distribution systems.

GIS benefits Unitil's employees by helping them work better and faster — giving them new skills and advanced tools to serve our customers. Unitil's customers benefit by improved systems and services and increased cost-effectiveness.

Technology Changes Our Relationships with Our Customers

Every month, Unitil issues approximately 114,000 bills and collects, on average, more than $20 million in revenues. In any given month, we may get 20,000 phone calls from customers for a wide variety of reasons, including account inquiries, requests to initiate or terminate an account, outage reports, or requests for information or assistance. The basic nature of these interactions has been the same for many decades.

Increasingly, technology is introducing new modes for conducting business and communicating with customers. Company/customer relationships are being transformed; the new world puts information, choices, and control in the hands of the consumer.

Two years ago Unitil installed an Integrated Voice Response (IVR) system, along with web-enabled customer service functions, that allowed customers to conduct and manage transactions with the Company without direct contact with a Company employee. This new functionality provides tools for customers to review and to pay their bills on-line or over the phone. They can report power outages through the IVR, and the phone system is able to handle vastly increased call volumes – a critical function during major outages, when time of response is of the essence. Customers can also initiate or terminate accounts and set up payment arrangements quickly, conveniently, and directly.

From the customer standpoint, these added functions and services are valuable features. From the Company standpoint, the new technology and systems are significant cost reducers.

As banks have found, over-the-counter transactions involving face-to-face contact are the most expensive. Billing and payment by mail and check is much more economical, but electronic transactions with no direct employee intervention or handling are by far the most cost-effective. Moreover, the IVR reduces the number of calls that Customer Service representatives have to answer. The average call handled in person may be more complex, but overall, the IVR reduces call time and, ultimately, reduces the staffing required to answer customer calls quickly and efficiently. At the same time, our customers can always speak with a real person in Customer Service, 24 hours a day, seven days a week.

This year Unitil is adding Voice Over Internet Protocol (VOIP) capability to its phone system. While transparent to customers, the technology will improve service and reduce costs by allowing digital bandwidth to carry both voice and data. Moreover, when combined with technology that provides secure remote access over broadband, it will enable employees to "plug in" and perform a full range of operations and functions from any location. Reduced costs – added flexibility and convenience – improved services to customers: Technology is transforming customer relationships.

All of these technological innovations will enable Unitil to work faster, cheaper, and better for our customers. We are continuing to accomplish all this with fewer workers than we had five years ago.

Unitil's senior management team (l. to r.): Raymond Morrissey, Vice President Information Systems; Todd Black, Vice President Usource; Tom Meissner, Senior Vice President & Chief Operating Officer; Larry Brock, Controller & Chief Accounting Officer; Bob Schoenberger, Chairman of the Board of Directors, President, & Chief Executive Officer; George Gantz, Senior Vice President Customer Services & Communications; Mark Collin, Senior Vice President, Chief Financial Officer & Treasurer; George Long, Vice President Administration.

Building our Strategies from the Bottom Up

These are only a sample of the ways in which our business is being transformed by technology and changing workforce issues. We recognize the increasing importance of this transformation to our business, and have added a new strategy to our 2006 Strategic Plan – Operations Transformation. The strategy recognizes that the Company is evolving rapidly in response to both external drivers and internal redesign and innovation. Our goal, consistent with our operational and financial objectives, is to be the most advanced and technologically capable distribution utility in the region.

We will continue to pursue our other four strategies aggressively: Regulation of Utility Business, Gas Distribution Growth, Electric Distribution Growth, and Usource.

The regulatory strategy will focus on the completion of a traditional distribution rate case for our New Hampshire subsidiary in 2006, the continued procurement of cost-effective wholesale energy supplies for our customers, and the exploration of performance-based ratemaking options for our Massachusetts subsidiary.

In late 2004, we began a new initiative to grow our natural gas business. In 2005, we achieved our overall goals for growth in sales and net income, and posted a 5.1% increase in sales of firm natural gas distribution service. Despite the twin challenges of higher energy prices and economic uncertainty, we can turn what had been a static business into a growing one.

Our electric distribution business spans three diverse service territories in New Hampshire and Massachusetts. Residential growth has remained strong in our New Hampshire service areas and has been accelerating in north central Massachusetts. In the last year, we have seen signs of a catch-up in retail and commercial growth, and industrial sales have stabilized. Overall kilowatt-hour sales were up 2.8% for the year.

Usource continues to grow. By following a balanced strategy focused on customer retention and customer acquisition in those market areas in the Northeast where retail competition is most active, Usource has grown revenues by 31%, to just over $2 million. Usource is also building a multi-year book of revenues, as many customers seek to manage their energy risk by signing longer-term contracts. We expect both these trends to continue in 2006 and beyond.

Unitil has an experienced management team to lead the Company's employees in the successful implementation of its Strategic Plan. These employees are also first rate, and they are loyal.

Our goal is to grow the business 3-5% per year, with continuing improvement in cash flow and operational performance. I believe we have the technology, the tools, the employees, and the resources to make this happen.

Robert Schoenberger

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

February 3, 2006

This Annual Report contains forward-looking statements, which are subject to the inherent uncertainties in predicting future results and conditions. All statements, other than statements of historical fact, are forward-looking statements. Certain factors that could cause the actual results to differ materially from those projected in these forward-looking statements include, but are not limited to the following: variations in weather; changes in the regulatory environment; customers' preferences on energy sources; general economic conditions; increased competition; fluctuations in supply, demand, transmission capacity, and prices for energy commodities; and other uncertainties, all of which are difficult to predict, and many of which are beyond the control of Unitil Corporation.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-8858

UNITIL CORPORATION
(Exact name of registrant as specified in its charter)

New Hampshire **(State or other jurisdiction of incorporation or organization)**	**02-0381573** **(I.R.S. Employer Identification No.)**
6 Liberty Lane West, Hampton, New Hampshire **(Address of principal executive offices)**	**03842-1720** **(Zip Code)**

Registrant's telephone number, including area code: (603) 772-0775

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, No Par Value	**American Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Based on the closing price of June 30, 2005, the aggregate market value of common stock held by non-affiliates of the registrant was $147,884,697.

The number of common shares outstanding of the registrant was 5,618,664 as of February 22, 2006.

Documents Incorporated by Reference:

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 20, 2006, are incorporated by reference into Part III of this Report

UNITIL CORPORATION
FORM 10-K
For the Fiscal Year Ended December 31, 2005
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Exhibits 31.1-31.3	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

PART I

Item 1. Business

UNITIL CORPORATION

Unitil Corporation (Unitil or the Company) was incorporated under the laws of the State of New Hampshire in 1984. The following companies are wholly-owned subsidiaries of Unitil:

Unitil Corporation Subsidiaries	State and Year of Organization	Principal Type of Business
Unitil Energy Systems, Inc. (UES)	NH - 1901	Retail Electric Distribution Utility
Fitchburg Gas and Electric Light Company (FG&E)	MA - 1852	Retail Electric & Gas Distribution Utility
Unitil Power Corp. (Unitil Power)	NH - 1984	Wholesale Electric Power Utility
Unitil Service Corp. (Unitil Service)	NH - 1984	Utility Service Company
Unitil Realty Corp. (Unitil Realty)	NH - 1986	Real Estate Management
Unitil Resources, Inc. (Unitil Resources)	NH - 1993	Non-utility, Unregulated Energy Services
Usource Inc. and Usource L.L.C. (Usource)	DE - 2000	Energy Brokering and Advisory Services

Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005. Prior to the passage of the Energy Policy Act of 2005, Unitil and its subsidiaries were subject to regulation as a registered holding company system under the Public Utility Holding Company Act of 1935 (PUHCA) by the Securities and Exchange Commission (SEC). As a result of the enactment of the Energy Policy Act of 2005, PUHCA has been repealed.

Unitil's principal business is the retail distribution of electricity in the southeastern seacoast and capital city areas of New Hampshire and the retail distribution of both electricity and natural gas in the greater Fitchburg area of north central Massachusetts. Unitil has two distribution utility subsidiaries, UES, which operates in New Hampshire and FG&E, which operates in Massachusetts (collectively referred to as the "retail distribution utilities"). Unitil's retail distribution utilities serve approximately 98,600 electric customers and 15,000 natural gas customers in their franchise areas. The retail distribution companies are local "pipes and wires" utility distribution companies with a combined investment in net utility plant of $213.0 million at December 31, 2005. Unitil's total revenue was $232.1 million in 2005. Earnings applicable to common shareholders for 2005 was $8.4 million. Substantially all of Unitil's revenue and earnings are derived from regulated utility operations.

A third utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for UES. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of UES on May 1, 2003 and divested of substantially all of its long-term power supply contracts through the sale of the entitlements to the electricity associated with those contracts.

Unitil also has three other wholly-owned subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company's corporate office in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Resources is the Company's wholly-owned non-utility unregulated subsidiary that provides consulting and management related services. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly-owned subsidiaries of Unitil Resources. Usource provides energy brokering and advisory services to large commercial and industrial customers in the northeastern United States.

OPERATIONS

Electric Utility Operations

Unitil's electric utility operations are conducted through the retail distribution utilities, UES and FG&E. Revenue from Unitil's electric utility operations was $197.3 million for 2005. Earnings from electric utility operations were $7.0 million for the same 12-month period.

The primary business of Unitil's electric utility operations is the local distribution of electricity to customers in its franchise areas. As a result of the implementation of retail choice in New Hampshire and Massachusetts, Unitil's customers are free to contract for their supply of electricity with third-party suppliers. The retail distribution utilities continue to deliver that supply of electricity over their distribution systems. Both UES and FG&E supply electricity to those customers who do not obtain their supply from third-party suppliers, with the costs associated with electricity supplied by the Company being recovered on a pass-through basis under periodically-adjusted rates.

UES distributes electricity to approximately 71,100 customers in New Hampshire in the capital city of Concord as well as 12 surrounding towns and all or part of 16 towns in the southeastern and seacoast regions of New Hampshire, including the towns of Hampton, Exeter, Atkinson and Plaistow. UES' franchise areas consist of approximately 408 square miles. The state capital of New Hampshire is located within UES' franchise areas, and includes the executive, legislative and judicial branches and offices and facilities for all major state government services as well as several federal government facilities. In addition, UES' franchise areas are retail trading and recreation centers for the central and southeastern parts of the state. These areas serve diversified commercial and industrial businesses, including manufacturing firms engaged in the production of electronic components, wires and plastics. UES' franchise areas include popular resort areas and beaches along the Atlantic Ocean, including the Hampton Beach recreational area. UES' 2005 retail electric operating revenue was $134.7 million, of which approximately 41.0% was derived from residential sales and 59.0% from commercial/industrial sales. UES' earnings in 2005 were $3.8 million.

FG&E is engaged in the retail distribution of both electricity and natural gas in the city of Fitchburg and several surrounding communities. FG&E's franchise area encompasses approximately 170 square miles. Electricity is supplied and distributed by FG&E to approximately 27,500 customers in the communities of Fitchburg, Ashby, Townsend and Lunenburg. FG&E's industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries. FG&E's 2005 retail electric operating revenue was $62.6 million, of which approximately 44.0% was derived from residential sales and 56.0% from commercial/industrial sales. FG&E's earnings from electric utility operations were $3.2 million in 2005.

Gas Utility Operations

Natural gas is supplied and distributed by FG&E to approximately 15,000 retail customers in the communities of Fitchburg, Lunenburg, Townsend, Ashby, Gardner and Westminster, all located in Massachusetts.

As a result of the introduction of retail choice for all natural gas customers in Massachusetts, FG&E's customers are free to contract for their supply of natural gas with third-party suppliers. FG&E continues to provide natural gas supply services to those customers who do not obtain their supply from third-party suppliers. The costs associated with natural gas supplied by FG&E are recovered on a pass-through basis under periodically adjusted rates.

FG&E's 2005 gas operating revenue was $32.8 million, of which approximately 58.0% was derived from residential firm sales and 42.0% from commercial/industrial firm sales. Earnings from FG&E's gas utility operations were $0.9 million for 2005.

Seasonality

Natural gas sales in New England are seasonal, and the Company's results of operations reflect this seasonal nature. Accordingly, results of operations are typically positively impacted by gas operations during the five heating season months, from November through March. Electric sales in New England are far less seasonal than natural gas sales; however, the highest usage typically occurs in both the summer due to air conditioning demand and the winter months due to heating-related requirements and shorter daylight hours.

Non-Utility, Unregulated Operations and Other

Unitil's non-utility, unregulated operations are comprised of Unitil Resources and Usource. Unitil Resources provides energy consulting and management services. Usource provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Revenue from Unitil's unregulated operations was $2.0 million in 2005. Unitil's other subsidiaries include Unitil Service and Unitil Realty, which provide centralized facilities, management and administrative services to Unitil's affiliated companies. Unitil's consolidated net income includes the earnings of the holding company and these subsidiaries. In addition to the earnings from unregulated operations, the earnings of these subsidiaries are principally derived from income earned on short-term investments and real property owned for Unitil's and its subsidiaries' use and is reported in Other segment income. Non-utility, unregulated operations and Other segment earnings for 2005 were approximately $0.5 million.

(For details on Unitil's Results of Operations, see Part II, Item 7 herein.)
(For segment information, see Part II, Item 8, Note 10 herein.)

RATES AND REGULATION

Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 in regards to certain bookkeeping, accounting and reporting requirements. Prior to the passage of the Energy Policy Act of 2005, Unitil and its subsidiaries were subject to regulation as a registered holding company system under the Public Utility Holding Company Act of 1935 (PUHCA) by the SEC with respect to various matters, including: the issuance of securities, capital structure, and certain acquisitions and dispositions of assets. As a result of the enactment of the Energy Policy Act of 2005, PUHCA has been repealed. Unitil's utility operations related to wholesale and interstate business activities are also regulated by FERC. The retail distribution utilities, UES and FG&E, are subject to regulation by the New Hampshire Public Utilities Commission (NHPUC) and the Massachusetts Department of Telecommunications and Energy (MDTE), respectively, in regards to their rates, issuance of securities and other accounting and operational matters. Because Unitil's primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company's operations and financial position.

Unitil's retail distribution utilities have the franchise to deliver electricity and/or natural gas to all customers in their franchise areas, at rates established under traditional cost of service regulation. Under this regulatory structure, UES and FG&E recover the cost of providing distribution service to their customers based on a historical test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in Massachusetts and New Hampshire, Unitil's customers have the opportunity to purchase their electric or natural gas supplies from third party vendors. Most customers, however, continue to purchase such supplies through UES and FG&E as the provider of last resort. UES and FG&E purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual costs of these supplies on a pass-through basis, as well as certain costs associated with industry restructuring, through reconciling rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, Unitil Power and FG&E divested substantially all of their long-term power supply contracts and interests in generation assets through the sale of the interest in those assets or the sale of the entitlements to the electricity provided by those generation assets and long-term power supply contracts. UES and FG&E recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDTE, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next 5 to 7 years, is $154 million as of December 31, 2005 and is included in Regulatory Assets on the Company's Consolidated Balance Sheet. Unitil's retail distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

ELECTRIC POWER SUPPLY

Unitil's customers in both New Hampshire and Massachusetts now have the opportunity to purchase their electric supply from competitive retail suppliers, though most customers continue to purchase such supplies through the retail distribution utilities. The transition to retail choice required the divestiture of Unitil's existing power supply arrangements and the procurement of replacement supplies which provided the flexibility for migration of customers to and from utility service. FG&E, UES, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the Independent System Operator—New England (ISO-NE) markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve Unitil's retail customers.

Power Supply Divestiture

Prior to May 1, 2003, UES purchased all of its power supply from Unitil Power under the Unitil System Agreement, a FERC-regulated tariff, which provided for the recovery of all of Unitil Power's power supply-related costs on a cost pass-through basis. Effective May 1, 2003, UES and Unitil Power amended the Unitil System Agreement, such that power sales from Unitil Power to UES ceased, and Unitil Power sold substantially all of its entitlements under the remaining portfolio of power supply contracts. Under the amended Unitil System Agreement, UES continues to pay contract release payments to Unitil Power for costs associated with the portfolio sale and its other ongoing power supply-related costs. Recovery of the contract release payments by UES from its retail customers has been approved by the NHPUC.

Unitil Power divested its long-term power supply contracts to Mirant Corporation (Mirant). The purchase of power to supply UES' Transition Service and Default Service requirements by UES from Mirant was linked to the Unitil Power divestiture. The NHPUC Order completed the state approval process for Unitil's restructuring plan under which UES implemented customer choice for its customers on May 1, 2003. The divested power supply contracts continue through October 2010.

In March 1999, FG&E completed the sale of its 4.5% interest in the New Haven Harbor Station generating unit. FG&E divested its remaining owned generation assets and long-term power supply contracts to Select Energy, Inc., a subsidiary of Northeast Utilities. Under the Select Energy contract, which was approved by the MDTE in January 2000, and went into effect February 1, 2000, FG&E began selling the entire output from its remaining long-term power supply contracts and the output of its two joint ownership units, Millstone Unit 3 and Wyman Unit No. IV, to Select Energy. Upon the sale of FG&E's share of Millstone Unit 3 in 2001, this portion of the contract sale ceased. Effective with the termination of the Purchased Power Contract between FG&E and Linweave, Inc. on December 1, 2004, this portion of the contract sale also ceased. On December 30, 2005 Select Energy assigned the FG&E contracts portfolio to Constellation Energy Commodities Group (Constellation) effective January 1, 2006. Recovery of all costs associated with the divestiture of the FG&E power supply portfolio has been approved by the MDTE.

Regulated Energy Supply

In order to provide regulated electric supply as the provider of last resort to their respective retail customers, the retail distribution companies enter into wholesale electric power supply contracts with various wholesale suppliers. In particular, FG&E has entered into power supply contracts to meet its power supply obligations associated with the provision of Standard Offer Service and Default Service. Standard Offer Service was offered only to customers who had both taken service from FG&E since the inception of retail choice in 1998 and had not switched to a competitive retail supplier. Consistent with MDTE regulations, Standard Offer Service ended February 28, 2005. Effective March 1, 2005 FG&E customers are eligible for Default Service. FG&E has power supply contracts with various wholesale suppliers for the provision of Default Service. MDTE policy dictates the pricing structure and duration of each of these contracts. Currently, all Default Service power supply contracts for large general accounts are three months in duration. Default Service power supply contracts for residential and small and medium general service customers are acquired every 6 months, with each 12 month contract providing 50% of the class requirements.

The MDTE is investigating alternatives to the current procurement policy for all accounts, other than the large general accounts. This process could potentially lead to the procurement of FG&E Default Service power supply for longer duration in order to provide more price stability for smaller customers throughout Massachusetts for whom competitive retail options are relatively scarce.

UES has entered into a power supply contract to meet its power supply obligations associated with the provision of Transition Service and Default Service. Transition Service is available to any UES customer who has not chosen a competitive retail supplier. UES' Default Service is available to any customer who has chosen a competitive retail energy supplier and returns to retail energy supply from UES. UES has entered into a power supply contract for the provision of Transition Service and Default Service with Mirant. This power supply contract provided fixed unit prices for both Transition Service and Default Service for UES' largest general service accounts through April 2005 and for all other accounts through April 2006.

On July 14, 2003 Mirant filed for Chapter 11 Bankruptcy protection. Mirant is currently performing all of its contractual obligations to both Unitil Power and UES and has satisfied all of its pre-petition claims made by Unitil. On January 3, 2006 Mirant emerged from Chapter 11 Bankruptcy protection.

In January, 2005 the NHPUC approved two six-month supply contracts for Transition Service and Default Service for UES' large general service customers for the period May, 2005 through April, 2006. In September, 2005 the NHPUC approved a Settlement among UES, NHPUC Staff and the Office of Consumer Advocate which provides for UES to procure Default Service for its largest general service accounts through successive competitive solicitations of three-months duration and to procure Default Service for all other customers through a series of two one-year contracts and two three-year contracts with each contract covering 25% of the total requirements of the group. The first two contracts were of 6-months and 18-months duration in order to stagger the start dates of future 1-year and 3-year procurements. On November 2, 2005, the NHPUC approved those two initial Default Service contracts for service starting May 1, 2006.

Regional Transmission and Power Markets

FG&E, UES and Unitil Power are members of the NEPOOL, formed in 1971 to assure reliable operation of the bulk power system in the most economic manner for the region. NEPOOL is governed by an agreement (NEPOOL Agreement) that is filed with and subject to the jurisdiction of the FERC. Under the NEPOOL Agreement and the NEPOOL Open Access Transmission Tariff (OATT), to which virtually all New England electric utilities are parties, substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. The NEPOOL Agreement and the OATT impose generating capacity and reserve obligations, and provide for the use of major transmission facilities and support payments associated therewith. The most notable benefits of NEPOOL are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric marketplace. The regional bulk power system is operated by an independent corporate entity, ISO-NE, in order to avoid any opportunity for conflicting financial interests between the system operator and the market-driven participants.

As of February 1, 2005, a Regional Transmission Organization (RTO) was established in New England. ISO-NE became the entity responsible for operating the RTO. The market rules and requirements to participate in the markets previously covered under the NEPOOL Agreement were transferred to the new RTO structure under control of ISO-NE. FERC approved the formation of the RTO in orders issued March 24, 2004 and November 3, 2004 to begin operation of the RTO structure effective February 1, 2005. As a result of the formation of the RTO, companies seeking transmission service throughout New England will be able to obtain that service under common terms, with much of their focus on dealing with ISO-NE, in cooperation with the local transmission providers.

On March 1, 2004, ISO-NE filed a proposal to implement Locational Installed Capacity (LICAP) in New England to allow for the imposition of incentive pricing for transmission constrained areas. UES and FG&E have intervened in the proceeding. Both UES and FG&E are located in a non-constrained area of the power pool. On October 21, 2005 the FERC issued an order directing that Settlement discussions take place and indicating that implementation of LICAP, if it proceeds, will not be earlier than October 1, 2006. This case is still before the FERC.

The formation of an RTO, LICAP and other wholesale market changes are not expected to have a material impact on Unitil's operations because of the cost recovery mechanisms for wholesale energy and transmission costs approved by the MDTE and NHPUC.

GAS SUPPLY

FG&E's natural gas customers now have the opportunity to purchase their natural gas supply from third-party vendors, though most customers continue to purchase such supplies at regulated rates through FG&E as the provider of last resort. The costs associated with the acquisition of such wholesale natural gas supplies for customers who do not contract with third-party suppliers are recovered on a pass-through basis through periodically-adjusted rates and are included in Purchased Gas in the Consolidated Statements of Earnings.

FG&E purchases natural gas from domestic and Canadian suppliers under contracts of one year or less, as well as from producers and marketers on the spot market and arranges for the transportation to its distribution facilities under long-term contracts with the Tennessee interstate pipeline. FG&E has a four-year contract for LNG supply which ends in 2008 which was approved by the MDTE. The following tables summarize actual gas purchases by source of supply and the cost of gas sold for the years 2003 through 2005.

Sources of Gas Supply

(Expressed as percent of total MMBtu of gas purchased)

	2005	2004	2003
Natural Gas:			
Domestic firm	**84.8%**	85.0%	94.0%
Canadian firm	**3.4%**	5.4%	1.3%
Domestic spot market	**9.3%**	5.9%	1.3%
Total natural gas	**97.5%**	96.3%	96.6%
Supplemental gas	**2.5%**	3.7%	3.4%
Total gas purchases	**100.0%**	100.0%	100.0%

Cost of Gas Sold

	2005	2004	2003
Cost of gas purchased and sold per MMBtu	**$10.83**	$8.42	$7.14
Percent Increase (Decrease) from prior year	**28.7%**	17.9%	43.9%

FG&E has available under firm contract 14,057 MMbtu per day of year-round and seasonal transportation and underground storage capacity to its distribution facilities. As a supplement to pipeline natural gas, FG&E owns a propane air gas plant and a liquefied natural gas (LNG) storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

ENVIRONMENTAL MATTERS

The Company's past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. The Company is in general compliance with all applicable environmental and safety laws and regulations, and management believes that as of December 31, 2005, there are no material losses reasonably possible in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Sawyer Passway MGP Site—The Company continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. FG&E proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection (DEP), which allows the Company to work towards temporary remediation of the site. Work performed in 2002 was associated with the five-year review of the Temporary Solution submittal (Class C Response Action Outcome) under the Massachusetts Contingency Plan (MCP) that was filed for the site in 1997. Completion of this work has confirmed the Temporary Solution status of the site for an additional five years, to January 2008. A status of temporary closure requires FG&E to monitor the site until a feasible permanent remediation alternative can be developed and completed. During 2005, FG&E continued developing a long range plan for a Permanent Solution for the site, including alternatives for re-use of the site.

On May 13, 2004 FG&E discovered an unauthorized excavation by another property owner on the site at Sawyer Passway in which tainted soils related to MGP by-products were exposed and relocated onto property owned by FG&E. FG&E promptly reported this discovery to the DEP and subsequently received a Notice of Responsibility on May 20, 2004. FG&E has properly disposed of the relocated materials and taken other steps in accordance with DEP directives to remedy the situation. The Completion Report for this release was submitted May 9, 2005.

Since 1991, FG&E has recovered the environmental response costs incurred at this former MGP site pursuant to an MDTE approved settlement agreement between the Massachusetts Attorney General and the natural gas utilities of the Commonwealth of Massachusetts (Agreement). The Agreement allows FG&E to amortize and recover from gas customers over succeeding seven-year periods the environmental response costs incurred each year. Environmental response costs are defined to include liabilities related to manufactured gas sites, waste disposal sites or other sites onto which hazardous material may have migrated as a result of the operation or decommissioning of Massachusetts gas manufacturing facilities from 1822 through 1978. In addition, any recovery that FG&E receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between FG&E and its gas customers. The total annual charge for such costs assessed to gas customers cannot exceed five percent of FG&E's total revenue for firm gas sales during the preceding year. Costs in excess of five percent will be deferred for recovery in subsequent years.

EMPLOYEES

As of December 31, 2005, the Company and its subsidiaries had 310 employees. Management considers the Company's relationship with employees to be good and has not experienced any major labor disruptions since the early 1960's.

There are approximately 100 employees represented by labor unions. These employees are covered by collective bargaining agreements, which expire May 31, 2010. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. The Company expects to successfully negotiate new agreements prior to their expiration dates.

AVAILABLE INFORMATION

The Company's Internet address is *www.unitil.com*. There, the Company makes available, free of charge, its SEC fillings, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports, as well as amendments to those reports. These reports are made available through the Investors section of Unitil's website via a direct link to the section of the SEC's website which contains Unitil's SEC filings.

The Company's current Code of Ethics was approved by Unitil's Board of Directors on January 15, 2004. This Code of Ethics, along with any amendments or waivers, is also available on Unitil's website.

Unitil's common stock is listed on the American Stock Exchange under the ticker symbol "UTL."

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table provides information about our directors and senior management as of February 22, 2006:

Name	Age	Position
Robert G. Schoenberger	55	Chairman of the Board, Chief Executive Officer and President
Mark H. Collin	46	Senior Vice President, Chief Financial Officer and Treasurer
Thomas P. Meissner, Jr.	43	Senior Vice President and Chief Operating Officer
Laurence M. Brock	52	Controller and Chief Accounting Officer
Todd R. Black	41	Vice President, Energy Markets
George R. Gantz	54	Senior Vice President, Customer Services and Communications
George E. Long, Jr.	49	Vice President, Administration
Raymond J. Morrissey	58	Vice President, Information Systems
Sandra L. Whitney	42	Corporate Secretary
Dr. Robert V. Antonucci	60	Director
David P. Brownell	62	Director
Michael J. Dalton	65	Director
Albert H. Elfner, III	61	Director
Edward F. Godfrey	56	Director
Michael B. Green	56	Director
Eben S. Moulton	59	Director
M. Brian O'Shaughnessy	62	Director
Charles H. Tenney, III	58	Director
Dr. Sarah P. Voll	63	Director

Robert G. Schoenberger has been Unitil's Chairman of the Board and Chief Executive Officer since 1997 and Unitil's President since 2003. Prior to his employment with Unitil, he was President and Chief Executive Officer of the New York Power Authority (a state owned public power enterprise) from 1993 until 1997. He is also a Trustee and Chairman of Exeter Health Resources.

Mark H. Collin was appointed Unitil's Senior Vice President and Chief Financial Officer in February 2003. Mr. Collin has served as Unitil's Treasurer since 1998. Since 1992, he has been Treasurer of UES and FG&E. Mr. Collin joined Unitil in 1988. Mr. Collin serves on the Board of Governors of New Hampshire Public Television.

Thomas P. Meissner, Jr. has been Unitil's Senior Vice President and Chief Operating Officer since June 2005. Mr. Meissner served as Unitil's Senior Vice President, Operations from February 2003 through June 2005. Mr. Meissner joined Unitil in 1994 and served as Unitil's Director of Engineering from 1998 to 2003. From 1985 to 1994, he was employed by the Public Service Company of New Hampshire.

Laurence M. Brock has been Unitil's Chief Accounting Officer and Controller since June 2005. Mr. Brock joined Unitil in 1995 as Vice President and Controller, and is a Certified Public Accountant in the State of New Hampshire. Prior to his employment with Unitil, Mr. Brock served as a Corporate Controller with a group of diversified financial services and manufacturing companies. Mr. Brock gained his public accounting experience with Coopers & Lybrand in Boston, Massachusetts.

Todd R. Black has been Unitil's Vice President, Energy Markets since January 2003. He served as Vice President, Sales and Marketing for Usource from 1998 to 2003. Prior to his employment with Unitil, he served as Vice President, Services Delivery for Energy USA, the unregulated subsidiary of Bay State Gas Company, from 1988 until 1998.

George R. Gantz has been Unitil's Senior Vice President, Customer Services and Communications since January 2003. Mr. Gantz previously served as Unitil's Senior Vice President, Communication and Regulation from 1994 to 2003. Mr. Gantz joined Unitil in 1983.

George E. Long, Jr. has been Unitil's Vice President, Administration since February 2003. Mr. Long joined Unitil in 1994 and was Director, Human Resources from 1998 to 2003. Prior to his employment with Unitil, Mr. Long was the Director of Compensation and Benefits at Monarch Life Insurance Company from 1985 to 1994.

Raymond J. Morrissey has been Unitil's Vice President, Information Systems since February 2003. From 1992 to 2003, he served as Unitil's Vice President of Customer Service, and from 1991 to 1992, he was the General Manager of Unitil's subsidiary, FG&E. Mr. Morrissey joined Unitil in 1985.

Sandra L. Whitney has been Unitil's Corporate Secretary and Secretary of the Board since February 2003. Ms. Whitney has been the Corporate Secretary of Unitil's subsidiary companies, FG&E, UES, Unitil Power, Unitil Realty and Unitil Service since 1994. Ms. Whitney joined Unitil in 1990.

Dr. Robert V. Antonucci has been President of Fitchburg State College since 2003. Dr. Antonucci was also President of the School Group of Riverdeep, Inc from 2001 to 2003, and President and CEO of Harcourt Learning Direct and Harcourt Online College from 1998 to 2001. Dr. Antonucci also served as the Commissioner of Education for the Commonwealth of Massachusetts from 1992 to 1998. Dr. Antonucci also serves as a Director of Eastern Bank.

David P. Brownell was a Senior Vice President of Tyco International Ltd. from 1995 until his retirement in 2003. He had been with Tyco since 1984. Mr. Brownell is also Vice Chairman of the University of New Hampshire Foundation.

Michael J. Dalton was Unitil's President and Chief Operating Officer from 1984 until his retirement in 2003. Mr. Dalton is a member of the Advisory Board of the University of New Hampshire College of Engineering and Physical Sciences.

Albert H. Elfner, III was the Chairman, from 1994, and Chief Executive Officer, from 1995, of Evergreen Investment Management Company until his retirement in 1999. Mr. Elfner is also a Director of NGM Insurance Company (NGM), as well as a member of the NGM Finance Committee, and the Chairman of MDT Funds (formerly Optimum Q Funds.)

Edward F. Godfrey was the Executive Vice President and Chief Operating Officer of Keystone Investments, Incorporated from 1997 until his retirement in 1998. While at Keystone Investments, he was also a Senior Vice President, Chief Financial Officer and Treasurer from 1988 to 1996. Mr. Godfrey is also a Director of Reilly Mortgage Group and serves on their Audit Committee.

Michael B. Green has been the President and Chief Executive Officer of Capital Region Health Care and Concord Hospital since 1992. Mr. Green is also a member of the Adjunct Faculty, Dartmouth Medical School, Dartmouth College. He also currently serves on the Board of the Foundation for Healthy Communities, is a Director and Vice Chair of the New Hampshire Hospital Association, a Director of New Hampshire Business Committee for the Arts, a Director of Merrimack County Savings Bank, including membership on the bank's Investment and Audit Committees, and a member of the *Concord Monitor* Board of Contributors.

Eben S. Moulton has been the Managing Partner of Seacoast Capital Corporation since 1995. Mr. Moulton is also a Director of IEC Electronics, a Director of six private companies and a Trustee of Colorado College.

M. Brian O'Shaughnessy has been the Chairman of the Board, Chief Executive Officer and President of Revere Copper Products, Inc. since 1988. Mr. O'Shaughnessy also serves on the Board of Directors of the National Association of Manufacturers, the International Copper Association, the Copper Development Association, and the Copper and Brass Fabricators Council. He also serves in New York State as Chairman of the Industrial Energy Consumer Coalition, and as a member of the Board of Directors of the Multiple Intervenors.

Charles H. Tenney, III has been Director of Operations for Brainshift.com, Inc. since 2002. He also served as a financial advisor for H&R Block Financial Advisors from 2001 to 2002 and as the Director of Corporate Services for Log On America, Inc. from 1999 to 2000. Mr. Tenney also currently serves on the Board of Overseers of the Huntington Theater Company, Boston, Massachusetts.

Dr. Sarah P. Voll has been the Vice President, National Economic Research Associates, Inc. ("NERA") since 1999. Dr. Voll was also a Senior Consultant at NERA from 1996 to 1999.

INVESTOR INFORMATION

Annual Meeting

The annual meeting of shareholders is scheduled to be held at the offices of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Thursday, April 20, 2006, at 10:30 a.m.

Transfer Agent

The Company's transfer agent, Computershare, is responsible for shareholder records, issuance of stock certificates, and the distribution of Unitil's dividends and IRS Form 1099-DIV. Shareholders may contact Computershare at:

Mail: Computershare, P.O. Box 43010, Providence, RI 02940-3010

Telephone: 800-736-3001 (Outside MA); 781-575-3100 (Within MA)

Investor Relations

For information about the Company and your investment, you may call the Company directly, toll-free, at: 800-999-6501 and ask for the Investor Relations Representative; visit the Investor page at *www.unitil.com*; or contact the transfer agent, Computershare, at the number listed above.

Special Services & Shareholder Programs Available

- Internet Account Access is available at *www.computershare.com/equiserve*.

- Dividend Reinvestment Plan:

  To enroll, please contact the Company's Investor Relations Representative or Computershare.

- Dividend Direct Deposit Service:

  To enroll, please contact the Company's Investor Relations Representative or Computershare.

- Direct Registration:

  For information, please contact Computershare at 800-935-9330 or the Company's Investor Relations Representative at 800-999-6501.

Item 1A. Risk Factors

Risks Relating to Our Business

Risks related to the regulation of our business could impact the rates we are able to charge, our costs and our profitability.

We are subject to comprehensive regulation by federal and state regulatory authorities, which significantly influences our operating environment and our ability to recover costs from our customers. In particular, we are regulated by the FERC and state regulatory authorities with jurisdiction over public utilities, including the NHPUC and the MDTE. These authorities regulate many aspects of our operations, including, but not limited to, construction and maintenance of facilities, operations, safety, issuance of securities, accounting matters, transactions between affiliates, the rates that we can charge customers and the rate of return that we are allowed to realize. Our ability to obtain rate adjustments to maintain our current rate of return depends upon regulatory action under applicable statutes, rules and regulations, and we cannot assure you that we will be able to obtain rate adjustments or continue receiving our current authorized rates of return. These regulatory authorities are also empowered to impose financial penalties and other sanctions on us if we are found to have violated statutes and regulations governing our utility operations.

We are unable to predict the impact on our operating results from the regulatory activities of any of these agencies. Although we have attempted to actively manage the rate making process and have had recent success in obtaining rate increases, we can offer no assurances as to future success in the rate making process. Despite our requests, these regulatory commissions have authority under applicable statutes, rules and regulations to leave our rates unchanged, grant increases or order decreases in such rates. They have similar authority with respect to the recovery of our electricity and natural gas supply costs incurred by UES and FG&E in their role as a "provider of last resort" for customers who do not contract with third-party suppliers, or whose third-party supplier fails to deliver. In the event that we are unable to recover these costs or recovery of these costs were to be significantly delayed, our operating results could be materially adversely affected. Changes in regulations or the imposition of additional regulations could also have an adverse effect on our operating results.

As a result of industry restructuring, we have a significant amount of certain stranded and energy supply costs, which are subject to recovery in future periods.

The stranded costs resulting from the implementation of industry restructuring mandated by the states of New Hampshire and Massachusetts and the cost of purchased power we incur as the "provider of last resort" on behalf of our customers are recovered by us on a pass-through basis through periodically adjusted rates. Any unrecovered balance of purchased power or stranded costs is deferred for future recovery as a regulatory asset. Such regulatory assets are subject to periodic regulatory review and approval for recovery in future periods.

Our power supply portfolio related stranded costs due to the electric industry restructuring in New Hampshire and Massachusetts for which regulatory approval has been obtained for recovery were approximately $57.9 million for FG&E and $57.0 million for UES as of December 31, 2005. Substantially all of FG&E's stranded costs relate to owned generation assets and long-term power purchase agreements divested by FG&E to Select Energy. Approximately $57.6 million of UES' stranded costs are attributable to the long-term power purchase agreements divested by Unitil Power to Mirant. Because FG&E and Unitil Power remain ultimately responsible for payments under the power purchase agreements divested by them, if either Select or Mirant were to fail to fulfill their obligations to purchase the entitlements to electricity provided for in those agreements, FG&E and Unitil Power could incur additional stranded costs were they to resell such entitlements for amounts less than the amounts agreed to be paid by Select and Mirant. We expect that any such additional stranded costs would be recovered from our customers, although such recovery would require approval from the MDTE or NHPUC, the receipt of which cannot be assured.

Our electric and natural gas sales and revenues are highly correlated with the economy, and national, regional and local economic conditions may negatively impact our customers and correspondingly our operating results and financial condition.

Our business is influenced by the economic activity of our franchise areas. The level of economic growth in our electric and natural gas distribution franchise areas directly affects our potential for future growth in our business. As a result, adverse changes in the economy may have negative effects on our revenues, operating results and financial condition.

Declines in the valuation of capital markets could require us to make substantial cash contributions to cover our pension obligations, which could negatively impact our financial condition. In addition, the recovery of certain pension obligations is subject to regulatory risks.

We made voluntary cash contributions to our pension plans of $1.2 million and $2.0 million in 2003 and 2004, respectively. In 2005 we were required to make a minimum cash contribution of $0.7 million to our pension plans and made an additional voluntary cash contribution of $1.8 million for a total of $2.5 million. If the valuation of capital markets were to significantly decline from current levels, we may be required to make cash contributions to our pension plans substantially in excess of the levels currently anticipated, which could adversely affect our financial condition.

Increases in interest rates could have a negative impact on our financial condition.

Our subsidiaries have ongoing capital expenditure requirements which they frequently fund through borrowings from outside lenders. Changes in interest rates do not affect interest expense associated with our subsidiaries' presently outstanding fixed rate long-term debt securities. However, our subsidiaries periodically issue new long-term debt securities either to refinance short-term borrowings or to fund capital expenditures. Changes in interest rates may affect the interest rate and corresponding interest expense on any such new long-term debt securities. In addition, our subsidiaries' short-term borrowings are at variable rates of interest. As a result, changes in short-term interest rates will increase or decrease our interest expense associated with short-term borrowings. Increases in interest rates generally will increase our borrowing costs and could adversely affect our financial condition or results of operations.

Weather conditions may cause our sales to vary from year to year.

Our utility operating sales vary from year to year, depending on weather conditions. We estimate that approximately 75% of our annual natural gas sales are temperature sensitive. As a result, mild winter temperatures can cause a decrease in the amount of gas we sell in any year, particularly during the winter heating season. Our electric sales are generally less sensitive to weather than our gas sales, but may also be affected by weather conditions in both the winter and summer seasons.

We are a holding company and have no operating income of our own. Our ability to pay dividends on our common stock is dependent on dividends received from our subsidiaries and on factors directly affecting us, the parent corporation. We cannot assure you that our current annual dividend will be paid in the future.

We are a public utility holding company and we do not have any operating income of our own. Consequently, our ability to pay dividends on our common stock is dependent on dividends and other payments received from our subsidiaries, principally UES and FG&E. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts to us, whether through dividends, loans or other payments. The ability of our subsidiaries to pay dividends or make distributions to us will depend on, among other things:

- the actual and projected earnings and cash flow, capital requirements and general financial condition of our subsidiaries;
- the prior rights of holders of existing and future preferred stock, mortgage bonds, long-term notes and other debt issued by our subsidiaries;
- the restrictions on the payment of dividends contained in the existing loan agreements of UES and FG&E and that may be contained in future debt agreements of our subsidiaries, if any;
- limitations imposed by New Hampshire and Massachusetts state regulatory agencies, which, among other things, may prohibit the payment of dividends by subsidiaries out of capital or unearned surplus without prior approval.

In addition, we may incur indebtedness in the future. Before we can pay dividends on our common stock, we have to satisfy our debt obligations and comply with any statutory or contractual limitations.

Our current annual dividend is $1.38 per share of common stock, payable quarterly. However, our board of directors reviews our dividend policy periodically in light of the factors referred to above, and we cannot assure you of the amount of dividends, if any, that may be paid in the future.

Transporting and storing natural gas and supplemental gas supplies, as well as electricity, involve numerous risks that may result in accidents and other operating risks and costs.

Inherent in our electric and gas distribution activities are a variety of hazards and operating risks, such as leaks, explosions, electrocutions and mechanical problems that could cause substantial financial losses. In addition, these risks could result in loss of human life, significant damage to property, environmental pollution, and impairment of our operations and substantial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks and losses. The location of pipelines, storage facilities and electric distribution equipment near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. The occurrence of any of these events not fully covered by insurance could adversely affect our financial position and results of operations.

Our business is subject to environmental regulation in all jurisdictions in which we operate and our costs of compliance are significant. Any changes in existing environmental regulation and the incurrence of environmental liabilities could negatively affect our results of operations and financial condition.

Our utility operations are generally subject to extensive federal, state and local environmental laws and regulations relating to air quality, water quality, waste management, natural resources and the health and safety of our employees. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties; imposition of remedial requirements; and even issuance of injunctions to ensure future compliance. Liability under certain environmental laws is strict, joint and several in nature. Although we believe we are in general compliance with all applicable environmental and safety laws and regulations, there can be no assurance that significant costs and liabilities will not be incurred in the future. Moreover, it is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations, could result in increased environmental compliance costs. See “Environmental Matters” in the Part I, Item 1, “Business” section of this report for further detail.

Catastrophic events could have a material adverse effect on our financial condition or results of operations.

The electric and natural gas utility industries are from time to time affected by catastrophic events, such as unusually severe weather and significant and widespread failures of plant and equipment. Other catastrophic occurrences, such as terrorist attacks on utility facilities, may occur in the future. Such events could have a material adverse effect on us, since they could inhibit our ability to continue providing electric and/or gas distribution services to our customers for an extended period, which is the principal source of our operating income.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2005, Unitil owned, through its retail distribution utilities: two operation centers, approximately 2,145 pole miles of local transmission and distribution overhead electric lines and 507 conduit bank miles of underground electric distribution lines, along with 55 electric substations, including three mobile electric substations. FG&E's natural gas operations property includes a liquid propane gas plant, a liquid natural gas plant and 316 miles of underground gas mains. In addition, Unitil's real estate subsidiary, Unitil Realty, owns the Company's corporate headquarters building and the 12 acres on which it is located in Hampton, New Hampshire.

UES owns and maintains distribution operations centers in Concord, New Hampshire and Kensington, New Hampshire. UES' 34 electric distribution substations, including a 5,000 kilovolt ampere (kVA) mobile substation, constitute 233,237 kVA of capacity (includes spares and mobile) for the transformation of electric energy from the 34.5 kV subtransmission voltage to other primary distribution voltage levels. The electric substations are located on land owned by UES or occupied by UES pursuant to a perpetual easement.

UES has a total of approximately 1,590 pole miles of local transmission and distribution overhead electric lines and a total of 336 conduit bank miles of underground electric distribution lines. The electric distribution lines are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by UES without objection by the owners. In the case of certain distribution lines, UES owns only a part interest in the poles upon which its wires are installed, the remaining interest being owned by telephone companies.

Additionally, UES owns 137.7 acres of non-utility property located on the east bank of the Merrimack River in Concord, New Hampshire. Of the total acreage, 81.2 acres are located within an industrial park zone.

The physical utility properties of UES, with certain exceptions, and its franchises are pledged as security under its indenture of mortgage and deed of trust under which the respective series of first mortgage bonds of UES are outstanding.

FG&E's electric properties consist principally of 555 pole miles of local transmission and distribution overhead electric lines, 171 conduit bank miles of underground electric distribution lines and 21 transmission and distribution stations including two mobile electric substations. The capacity of these substations totals 562,650 kVA.

FG&E owns a liquid propane gas plant and a liquid natural gas plant and the land on which they are located. FG&E also has 316 miles of underground steel, cast iron and plastic gas mains.

FG&E's electric substations, with minor exceptions, are located on land owned by FG&E or occupied by FG&E pursuant to a perpetual easement. FG&E's electric distribution lines and gas mains are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by FG&E without objection by the owners. FG&E leases its distribution operations center located in Fitchburg, Massachusetts.

Management believes that the Company's facilities are currently adequate for their intended uses.

Item 3. Legal Proceedings

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. Certain specific matters are discussed in Note 5 to the Consolidated Financial Statements. In the opinion of Management, based upon information furnished by counsel and others, the ultimate resolution of these claims will not have a material impact on the Company's financial position.

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Registrant's Common Stock is traded on the American Stock Exchange. As of December 31, 2005, there were 1,847 Common Shareholders of record.

Common Stock Data

Dividends per Common Share	2005	2004
1st Quarter	**$0.345**	$0.345
2nd Quarter	**0.345**	0.345
3rd Quarter	**0.345**	0.345
4th Quarter	**0.345**	0.345
Total for Year	**$ 1.38**	$ 1.38

Price Range of Common Stock	2005		2004	
	High/Ask	Low/Bid	High/Ask	Low/Bid
1st Quarter	**$27.80**	**$25.50**	$27.72	$25.60
2nd Quarter	**$28.05**	**$25.31**	$28.25	$25.33
3rd Quarter	**$28.70**	**$27.00**	$27.24	$25.56
4th Quarter	**$28.10**	**$24.37**	$28.75	$27.08

Information regarding Securities Authorized for Issuance Under Equity Compensation Plans is set forth in the table below.

EQUITY COMPENSATION PLAN BENEFIT INFORMATION

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders			
KESOP (1)	38,202	$11.89	29,101
Restricted Stock Plan (2)	—	N/A	130,925
Equity compensation plans not approved by security holders			
1998 Option Plan (3)	107,000	$27.13	—
Total	145,202	$23.12	160,026

NOTES: (also see Note 2 to the Consolidated Financial Statements)

(1) The KESOP was approved by shareholders in July 1989. Options were granted between January 1989 and November 1997.

(2) The Restricted Stock Plan was approved by shareholders in April 2003. 10,600 shares of restricted stock were awarded to Plan participants in May 2003; 10,700 shares of restricted stock were awarded to Plan participants in April 2004; 10,900 shares of restricted stock were awarded to Plan participants in March 2005; 14,375 shares of restricted stock were awarded to Plan participants in February 2006.

(3) The 1998 Option Plan was adopted by the Board of Directors of the Company in December 1998. At the time of adoption, the 1998 Option Plan was not required, under American Stock Exchange rules, to obtain shareholder approval. Options were granted in March 1999, January 2000, and January 2001. On January 16, 2003, the Board of Directors terminated the Option Plan upon the recommendation of the Compensation Committee. In April 2004, the 177,500 remaining registered and ungranted shares in the Option Plan were deregistered with the Securities and Exchange Commission. The Option Plan will remain in effect solely for the purposes of the continued administration of all options currently outstanding under the Option Plan. No further grants of options will be made thereunder.

Unregistered Sales of Equity Securities and Uses of Proceeds

(a) There were no sales of unregistered equity securities by the Company for the fiscal period ended December 31, 2005.

(b) Not applicable.

(c) Issuer repurchases are shown in the table below for the monthly periods noted:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
10/1/05 – 10/31/05	—	—	—	n/a
11/1/05 – 11/30/05	—	—	—	n/a
12/1/05 – 12/31/05	93	$24.90	93	n/a
	2,174	$25.29	2,174	
Total	2,267	$25.28	2,267	n/a

(1) Represents Common Stock purchased on the open market related to Board of Director Retainer Fees and Employee Length of Service Awards. Shares are not purchased as part of a specific plan or program and therefore there is no pool or maximum number of shares related to these purchases.

Item 6. Selected Financial Data

For the Years Ended December 31,	2005	2004	2003	2002	2001
(all data in thousands except % and per share data)					
Consolidated Statements of Earnings:					
Operating Revenue	**$ 232,145**	$ 214,137	$ 220,654	$ 188,386	$ 207,022
Operating Income	**15,541**	15,193	15,449	13,248	14,394
(Gain) Loss on Non-Utility Investments, net of tax	**—**	—	—	(82)	2,400
Other Non-operating Expense	**147**	193	(40)	185	170
Income Before Interest Expense and Extraordinary Item	**15,394**	15,000	15,489	13,145	11,824
Interest Expense, net	**6,841**	6,774	7,531	7,057	6,797
Income before Extraordinary Item	**8,553**	8,226	7,958	6,088	5,027
Extraordinary Item, net of tax	**—**	—	—	—	3,937
Net Income	**8,553**	8,226	7,958	6,088	1,090
Dividends on Preferred Stock	**156**	215	236	253	257
Earnings Applicable to Common Shareholders	**$ 8,397**	$ 8,011	$ 7,722	$ 5,835	$ 833
Balance Sheet Data:					
Utility Plant (Original Cost)	**$ 324,967**	$ 308,054	$ 288,657	$ 272,402	$ 255,498
Total Assets	**$ 450,081**	$ 457,010	$ 483,877	$ 481,702	$ 376,762
Capitalization:					
Common Stock Equity	**$ 96,283**	$ 94,291	$ 92,805	$ 74,350	$ 74,746
Preferred Stock	**2,327**	2,338	3,269	3,322	3,609
Long-Term Debt, less current portion	**125,365**	110,675	110,961	104,226	107,470
Total Capitalization	**$ 223,975**	$ 207,304	$ 207,035	$ 181,898	$ 185,825
Current Portion of Long-Term Debt	**$ 308**	$ 285	$ 3,263	$ 3,243	$ 3,224
Short-term Debt	**$ 18,700**	$ 25,675	$ 22,410	$ 35,990	$ 13,800
Capital Structure Ratios:					
Common Stock Equity	**43%**	46%	45%	41%	40%
Preferred Stock	**1%**	1%	2%	2%	2%
Long-Term Debt	**56%**	53%	53%	57%	58%
Earnings Per Share Data:					
Earnings Per Average Share – Basic and Diluted	**$ 1.51**	$ 1.45	$ 1.58	$ 1.23	$ 0.18
Common Stock Data:					
Shares of Common Stock – Diluted (Average)	**5,568**	5,525	4,896	4,762	4,760
Dividends Paid Per Share	**$ 1.38**	$ 1.38	$ 1.38	$ 1.38	$ 1.38
Book Value Per Share (Year-End)	**$ 17.21**	$ 17.00	$ 16.87	$ 15.67	$ 15.76
Electric and Gas Sales:					
Electric Distribution Sales (kWh)	**1,790,405**	1,742,131	1,717,664	1,659,136	1,596,390
Firm Natural Gas Distribution Sales (Therms)	**24,332**	23,151	24,592	22,480	23,067

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Note references are to Notes to the Consolidated Financial Statements in Item 8.)

Forward-Looking Information

This report and the documents we incorporate by reference into this report contain statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included or incorporated by reference into this report, including, without limitation, statements regarding the financial position, business strategy and other plans and objectives for the Company's future operations, are forward-looking statements.

These statements include declarations regarding Management's beliefs and current expectations. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. These forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the risks and uncertainties include the following:

- Variations in weather;
- Changes in the regulatory environment;
- Customers' preferences on energy sources;
- Interest rate fluctuation and credit market concerns;
- General economic conditions;
- Increased competition; and
- Fluctuations in supply, demand, transmission capacity and prices for energy commodities.

Many of these risks are beyond the Company's control. Any forward-looking statements speak only as of the date of this report, and the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for the Company to predict all of these factors, nor can the Company assess the impact of any such factor on its business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements.

See also Item 1A. Risk Factors.

EARNINGS & DIVIDENDS

The Company's Earnings Applicable to Common Shareholders was $8.4 million for 2005, an increase of $0.4 million, or 4.8%, compared to 2004. Earnings per common share were $1.51 for 2005, an increase of $0.06 per share compared with earnings of $1.45 per share for 2004. Earnings for 2005 reflect higher electric sales, driven by customer growth and hotter summer weather in 2005, and higher gas sales reflecting a new contract with a large industrial customer. Unitil also recorded higher net operating costs in 2005 compared to 2004.

Total electric kilowatt-hour (kWh) sales increased by 2.8% in 2005 compared to 2004. The Company's service territories experienced hotter weather during the summer of 2005 compared to the same period in 2004. Also contributing to the increase in unit sales was continued growth in the number of customers served.

Total firm therm natural gas sales increased by 5.1% in 2005 compared to 2004. This increase was due to a new contract with a large industrial customer.

Combined electric and gas sales margins increased $1.5 million in 2005 compared to 2004. The increases in electric and gas sales margins reflect increases in electric and gas sales in addition to increased utility rates authorized by regulators.

Total O&M expense increased $1.2 million, or 5.2%, in 2005 compared to 2004. This increase reflects higher salaries and compensation expenses of $0.6 million, higher retiree and employee benefit costs of $0.5 million, higher audit fees of $0.2 million, higher utility operating and maintenance expenses of $0.1 million and higher bad debt expenses of $0.1 million, partially offset by lower administrative and general expenses of $0.3 million. The higher audit fees include expenditures to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (SOXA).

Depreciation and Amortization expense increased $0.3 million, or 1.6%, in 2005 compared to 2004, reflecting higher depreciation expense of $0.6 million, due to increased investment in utility plant additions, partially offset by lower amortization in 2005 on the Company's regulatory assets related to its former abandoned property investment in Seabrook Station, which became fully-amortized in the third quarter of 2005.

Interest Expense, net increased $0.1 million, or 1.0% in 2005 compared to 2004. This increase was driven by increases in interest expense on short-term borrowings partially offset by increases in interest income, primarily due to increased carrying charges on regulatory assets.

In 2005, Unitil's annual common dividend was $1.38. At its January, 2006 meeting, the Unitil Board of Directors declared a quarterly dividend on the Company's common stock of $0.345 per share.

Per Share Data	2005	2004	2003
Earnings per Common Share	**$1.51**	$1.45	$1.58
Annual Dividend	**$1.38**	$1.38	$1.38

A more detailed discussion of the Company's 2005 Results of Operations and a year-to-year comparison of changes in financial position for the three-year period 2003 through 2005 are presented below.

RESULTS OF OPERATIONS

Operating Revenue—Electric

Electric Operating Revenue—Electric Operating Revenue increased by $13.4 million, or 7.3%, in 2005 as compared to 2004. Electric Operating Revenue includes the recovery of costs of electric sales, which are recorded as Purchased Electricity and Conservation & Load Management (C&LM) in operating expenses. The increase in Electric Operating Revenue primarily reflects an increase in Purchased Electricity costs and electricity unit sales volumes compared to the prior period. The Purchased Electricity cost of sales component increased $12.2 million, or 9.7%, in 2005 as compared to 2004, due to higher wholesale electric commodity prices. Purchased Electricity expenses include the cost of electric supply as well as the other energy supply related restructuring costs, including long-term power supply contract buyout costs. The Company recovers the cost of Purchased Electricity in its rates at cost on a pass through basis. C&LM revenue related to electric operations increased $0.3 million, or 9.0% in 2005 as compared to 2004. The Company also recovers the costs of C&LM on a pass through basis.

Gross electric sales margin (Electric Operating Revenue less Cost of Electric Sales) was $55.4 million in 2005. This represents an increase of $0.9 million compared to 2004. This increase reflects increased kWh unit sales to both residential and commercial and industrial customer classes and higher base rates as discussed above, partially offset by the expiration in 2005 of a rate surcharge on Regulatory Assets.

In 2004, Electric Operating Revenue decreased by $7.0 million, or 3.7% compared to 2003. The Purchased Electricity cost of sales component decreased $8.1 million, or 6.0% in 2004 compared to 2003, reflecting lower electric wholesale commodity prices. Electric sales margin was $54.4 million in 2004, an increase of $1.2 million over 2003. This increase reflects increased kWh unit sales to both residential and commercial and industrial customer classes.

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

Electric Operating Revenue and Sales Margin (000's)

				% Change	
	2005	**2004**	**2003**	**2005 vs. 2004**	**2004 vs. 2003**
Electric Operating Revenue:					
Residential	**$ 82,244**	$ 75,689	$ 76,893	8.7%	(1.6%)
Commercial/Industrial	**115,094**	108,200	113,971	6.4%	(5.1%)
Total Electric Operating Revenue	**$197,338**	$183,889	$190,864	7.3%	(3.7%)
Cost of Electric Sales:					
Purchased Electricity	**$138,134**	$125,940	$134,036	9.7%	(6.0%)
Conservation & Load Management	**3,845**	3,527	3,643	9.0%	(3.2%)
Gross Electric Sales Margin	**$ 55,359**	$ 54,422	$ 53,185	1.7%	2.3%

Kilowatt-hour Sales—Unitil's total kWh sales increased 2.8% in 2005 compared to 2004. This increase reflects growth in sales to residential and commercial customers primarily due to hotter summer weather and an increase in the number of customers served in 2005 than in 2004.

Sales to residential customers increased 5.4% in 2005 compared to 2004, due to customer growth and hotter weather. Sales to commercial and industrial (C&I) customers increased 1.2% in 2005 compared to 2004, due primarily to customer growth and the hotter summer weather. The hotter summer temperatures in the Company's service territories resulted in increased usage of electricity for air conditioning and other cooling purposes. According to ISO-NE, the entity which operates the regional bulk power system, New England's electricity use reached an all-time high on July 27, 2005. Our service territories hit two all-time system load peaks on July 19, 2005 and July 27, 2005.

Unitil's total electric kilowatt-hour (kWh) sales increased by 1.4% in 2004 compared to 2003. This increase reflects growth in sales to residential and commercial and industrial customer classes driven by customer growth year over year.

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

kWh Sales (000's)

				% Change	
	2005	**2004**	**2003**	**2005 vs. 2004**	**2004 vs. 2003**
Residential	**688,318**	652,763	645,711	5.4%	1.1%
Commercial/Industrial	**1,102,087**	1,089,368	1,071,953	1.2%	1.6%
Total	**1,790,405**	1,742,131	1,717,664	2.8%	1.4%

Operating Revenue—Gas

Gas Operating Revenue—Gas Operating Revenue increased $4.1 million, or 14.2%, in 2005 compared to 2004. Gas Operating Revenue includes the recovery of the costs of gas sales, which are recorded as Purchased Gas and C&LM in operating expenses.

Purchased Gas increased $3.7 million, or 21.4%, in 2005 compared to 2004. The increase in Purchased Gas is attributable to higher gas commodity costs. Purchased Gas costs include the cost of gas supply as well as the other energy supply related costs. The Company recovers the cost of Purchased Gas in its rates at cost on a pass through basis. C&LM expenses related to gas operations decreased $0.2 million in 2005 compared to 2004. The Company also recovers the costs of C&LM on a pass through basis.

Gross gas sales margin (Gas Operating Revenue less the Costs of Gas Sales) was $11.3 million in 2005. This represents an increase of $0.6 million compared to 2004. Approximately 22% of the increase in gross gas sales margin is attributable to a 5.1% increase in firm therm sales. This increase in firm therm sales is due to a new firm transportation contract with a large industrial customer. The remaining increase in gas sales margin is attributable to higher rates authorized by regulators to recover certain post retirement benefit costs.

Gas sales margin was $10.7 million in 2004. This represents a decrease of $0.2 million compared to 2003. Total firm therm unit sales decreased 5.9% in 2004 compared to 2003 reflecting milder winter weather in 2004 compared to 2003.

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

Gas Operating Revenue and Sales Margin (000's)

				% Change	
	2005	**2004**	**2003**	**2005 vs. 2004**	**2004 vs. 2003**
Gas Operating Revenue:					
Residential	**$18,977**	$16,313	$16,267	16.3%	0.3%
Commercial/Industrial	**13,644**	12,323	11,979	10.7%	2.9%
Total Firm Gas Revenue	**$32,621**	$28,636	$28,246	13.9%	1.4%
Interruptible Gas Revenue	**147**	49	366	200.0%	(86.6%)
Total Gas Operating Revenue	**$32,768**	$28,685	$28,612	14.2%	0.3%
Cost of Gas Sales:					
Purchased Gas	**$21,225**	$17,486	$17,421	21.4%	0.4%
Conservation & Load Management	**270**	476	287	(43.3%)	66.0%
Gross Gas Sales Margin	**$11,273**	$10,723	$10,904	5.1%	(1.7%)

Therm Sales—Unitil's total firm therm sales of natural gas increased 5.1% in 2005 compared to 2004, due to a new sales contract with a large industrial customer. Sales to residential customers decreased 2.7% in 2005 compared to 2004 due to a milder winter heating season in 2005 compared to the prior year. Sales to C&I customers increased 12.6% in 2005 compared to 2004. Absent the sales from the new contract discussed above, sales to C&I customers were 2.9% lower in 2005 compared to 2004 due to a milder winter heating season and lower natural gas usage by our largest customers for production processes.

In 2004, total firm therm sales decreased 5.9% compared to 2003, due to a milder winter heating season in early 2004 and lower average natural gas usage by our largest customers year over year.

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

Firm Therm Sales (000's)

				% Change	
	2005	**2004**	**2003**	**2005 vs. 2004**	**2004 vs. 2003**
Residential	**11,011**	11,319	12,181	(2.7%)	(7.1%)
Commercial/Industrial	**13,321**	11,832	12,411	12.6%	(4.7%)
Total	**24,332**	23,151	24,592	5.1%	(5.9%)

Operating Revenue—Other

Total Other Revenue increased $0.5 million, including a 31% increase in revenue from the Company's energy brokering business, Usource, in 2005 compared to 2004. Total Other Revenue increased $0.4 million in 2004 compared to 2003, including an increase of 36.1% in revenue from Usource.

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

Other Revenue (000's)

				% Change	
	2005	**2004**	**2003**	**2005 vs. 2004**	**2004 vs. 2003**
Usource	**$2,039**	$1,563	$1,148	30.5%	36.1%
Other	**—**	—	30	—	—
Total Other Revenue	**$2,039**	$1,563	$1,178	30.5%	32.7%

Operating Expenses

Purchased Electricity—Purchased Electricity includes the cost of electric supply as well as the other energy supply related restructuring costs, including power supply buyout costs. Purchased Electricity increased $12.2 million, or 9.7%, in 2005 compared to 2004, due primarily to higher electric commodity prices. The Company recovers the costs of Purchased Electricity in its rates at cost and therefore changes in these expenses do not affect earnings.

In 2004, Purchased Electricity expenses decreased $8.1 million, or 6.0%, compared to 2003, reflecting lower electric commodity prices.

Purchased Gas—Purchased Gas includes the cost of natural gas purchased and manufactured to supply the Company's total gas supply requirements. Purchased Gas increased $3.7 million, or 21.4%, in 2005 compared to 2004. The increase in Purchased Gas is attributable to higher natural gas commodity costs. The Company recovers the costs of Purchased Gas in its rates at cost on a pass through basis and therefore changes in these expenses do not affect Net Income.

In 2004, Purchased Gas increased by $0.1 million, or 0.4%, compared to 2003, reflecting higher natural gas commodity costs.

Operation and Maintenance (O&M)—O&M expense includes electric and gas utility operating costs, and the operating cost of the Company's unregulated business activities. Total O&M expense increased $1.2 million, or 5.2%, in 2005 compared to 2004.

This increase reflects higher salaries and compensation expenses of $0.6 million, higher retiree and employee benefit costs of $0.5 million, higher audit fees of $0.2 million, higher utility operating and maintenance expenses $0.1 million and higher bad debt expenses of $0.1 million, partially offset by lower administrative and general expenses of $0.3 million. The higher audit fees include expenditures to comply with Section 404 of the Sarbanes Oxley Act of 2002.

In 2004, total O&M expense increased $0.6 million, or 2.6%, compared to 2003, primarily reflecting higher salaries and compensation expenses of $0.6 million, higher employee benefits costs of $0.6 million, and higher audit, regulatory and professional fees of $0.2 million. These increases were partially offset by lower utility operating and maintenance costs, $0.5 million and lower other expenses, net of $0.3 million.

Conservation & Load Management—Conservation and Load Management expenses are expenses associated with the development, management, and delivery of the Company's energy efficiency programs.

Energy Efficiency programs are designed, in conformity to state regulatory requirements, to help consumers use natural gas and electricity more efficiently and thereby decrease their energy costs. Programs are tailored to residential, small business and large business customer groups and provide educational materials, technical assistance, and rebates that contribute toward the cost of purchasing and installing approved measures. Approximately 90% of these costs are related to electric operations and 10% to gas operations.

Total Conservation & Load Management expenses increased $0.1 million, or 2.8%, in 2005 compared to 2004. These costs are collected from customers on a fully reconciling basis and therefore, fluctuations in program costs do not affect earnings.

Total Conservation & Load Management expenses increased $0.1 million, or 1.9%, in 2004 compared to 2003.

Depreciation, Amortization and Taxes

Depreciation and Amortization—Depreciation and Amortization expense increased $0.3 million, or 1.6%, in 2005 compared to 2004, reflecting higher depreciation expense of $0.6 million, due to increased investment in utility plant additions, partially offset by lower amortization in 2005 on the Company's regulatory assets related to its former abandoned property investment in Seabrook Station, which became fully-amortized in the third quarter of 2005.

In 2004, Depreciation and Amortization expense increased $0.1 million, or 0.4%, compared to 2003, due to the increased investment in utility plant additions partially offset by lower amortization in 2004 on intangible assets.

Local Property and Other Taxes—Local Property and Other Taxes increased by less than $0.1 million, or 0.7%, in 2005 compared to 2004. This increase was due to higher local property tax rates on higher levels of utility plant in service.

In 2004, Local Property and Other Taxes increased by $0.4 million, or 7.8% compared to 2003. This increase was related to higher local property tax rates coupled with higher levels of utility plant in service.

Federal and State Income Taxes—Federal and State Income Taxes increased $0.1 million, or 1.6%, in 2005 compared to 2004, and by $0.7 million, or 18.4%, in 2004 compared to 2003. These increases were related to higher pre-tax operating income year over year.

Interest Expense, net

Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and interest on regulatory liabilities. Interest income is mainly derived from carrying charges on restructuring related stranded costs and other deferred costs recorded as regulatory assets by the retail distribution utilities as approved by regulators in New Hampshire and Massachusetts. Over the long run, as deferred costs are recovered through rates, the interest costs associated with these deferrals are expected to decrease together with a decrease in interest income. A summary of interest expense and interest income is provided in the following table:

Interest Expense, net (000's)	2005	2004	2003
Interest Expense			
Long-term Debt	**$ 8,423**	$ 8,492	$ 8,170
Short-term Debt	**1,046**	629	1,071
Subtotal Interest Expense	**9,469**	9,121	9,241
Interest Income			
Regulatory Assets	**(2,525)**	(2,310)	(1,657)
AFUDC and Other	**(103)**	(37)	(53)
Subtotal Interest Income	**(2,628)**	(2,347)	(1,710)
Total Interest Expense, net	**$ 6,841**	$ 6,774	$ 7,531

In 2005, Interest Expense, net, increased by approximately by $0.1 million compared to 2004. The net change in Interest Expense, net, reflects higher variable interest costs on short-term debt, partially offset by higher interest income from carrying charges on regulatory assets. A rise in bank borrowing rates and average daily bank borrowings during 2005 drove Interest Expense on short-term debt.

In 2004, Interest Expense, net, declined by approximately $0.8 million compared to 2003. The reduction in Interest Expense, net, is mainly due to the increase in interest income of $0.7 million during 2004, principally related to carrying charges applicable to regulatory assets. These gains were partially offset by increased interest expense on long-term debt of $0.3 million. In addition, interest expense on short-term debt decreased $0.4 million due to lower levels of average short-term borrowings outstanding.

Capital Requirements and Liquidity

Unitil requires capital to fund utility plant additions, working capital and other utility expenditures recovered in subsequent and future periods through regulated rates. The capital necessary to meet these requirements is derived primarily from internally-generated funds, which consist of cash flows from operating activities, excluding payment of dividends. The Company initially supplements internally generated funds through bank borrowings, as needed, under unsecured short-term bank lines. At December 31, 2005, Unitil had an aggregate of $44.0 million in unsecured revolving lines of credit with three banks. The Company anticipates that it will be able to secure renewal or replacement of some or all of its revolving lines of credit, in accordance with projected requirements. The Company had short-term debt outstanding through bank borrowings of approximately $18.7 million and $25.7 million at December 31, 2005 and December 31, 2004, respectively. In addition, Unitil had approximately $3.2 million in cash at December 31, 2005. Periodically, the Company replaces portions of its short-term debt with long-term financings more closely matched to the long-term lives of its utility assets.

The maximum amount of short-term borrowings that may be incurred by Unitil and its subsidiaries has been subject to periodic approval by the SEC under the Public Utility Holding Company Act of 1935 and state regulators of the Company's retail distribution utilities, UES and FG&E. However, in 2005 the Public Utility Holding Company Act of 1935 (PUHCA) was repealed. Under the Energy Policy Act of 2005 many regulatory oversight responsibilities of the SEC, prior to the repeal of PUHCA were transferred to the FERC. The FERC's transition rule permits Unitil and its subsidiaries to rely on outstanding SEC orders issued under PUHCA, including an order related to Unitil's cash pooling and loan arrangement and certain maximum borrowing authorizations to be extended through December 31, 2007. At December 31, 2005, Unitil had regulatory authorization to incur total short-term bank borrowings up to a maximum of $55 million, and UES and FG&E had regulatory authorizations to borrow up to a maximum of $16 million and $35 million, respectively. In 2005, UES and FG&E had average short-term debt outstanding of $3.2 million and $25.7 million, respectively.

Unitil and its subsidiaries are individually and collectively members of the Unitil Cash Pool. The Cash Pool is the financing vehicle for day-to-day cash borrowing and investing. The Cash Pool Agreement allows an efficient exchange of cash among Unitil and its subsidiaries. The interest rates charged to the subsidiaries for borrowing from the Cash Pool are based on Unitil's actual interest costs from its banks under the revolving lines of credit. In addition, Unitil has been required by the SEC to maintain a minimum 30% common equity ratio, including short-term debt, in order to utilize the Cash Pool. At December 31, 2005, all Unitil subsidiaries were in compliance with the regulatory requirements to participate in the Cash Pool.

During December, 2005, FG&E issued and sold $15.0 million of 5.90% unsecured long-term notes under a debenture note structure (see Note 3). The proceeds were utilized to repay outstanding short-term indebtedness of FG&E. In 2003, FG&E issued $10.0 million in long-term notes under a debenture note structure (see Note 3). The Company expects to continue to be able to satisfy its external financing needs by utilizing additional short-term bank borrowings and to periodically replace short-term debt with long-term financings.

On October 29, 2003, the Company raised approximately $16.9 million (after deducting underwriting discounts and commissions and the estimated expenses of the offering) through the sale of 717,600 shares of its common stock at a price of $25.40 per share in a registered public offering. The offering was increased from an original 520,000 shares to reflect a 20% upsizing of the transaction (104,000 shares) and the exercise of a 15% underwriters' over-allotment (93,600 shares). The Company used the proceeds from this offering to make capital contributions of $6 million to UES and $6 million to FG&E and for other general corporate purposes.

The continued availability of these methods of financing, as well as the Company's choice of a specific form of security, will depend on many factors, including, but not limited to: security market conditions; general economic climate; regulatory approvals; the ability to meet covenant issuance restrictions, if any; the level of the Company's earnings, cash flows and financial position; and the competitive pricing offered by financing sources.

Benefit Plan Funding

In 2005, 2004 and 2003, the Company and its subsidiaries made cash contributions to their pension plans in the amounts of $2.5 million, $2.0 million and $1.2 million, respectively. The Company may elect to fund the pension plan in future periods. In January 2004, Unitil established Voluntary Employee Benefit Trusts (VEBT) to provide post-retirement benefits. In 2005 and 2004, the Company and its subsidiaries contributed approximately $2.5 million and $2.4 million, respectively to the VEBT and expects to continue to make contributions to the VEBT in future years in amounts consistent with the amounts recovered in retail distribution utility rates for these benefit costs. Prior to the establishment of the VEBT, post-retirement benefits for employees of the Company and its subsidiaries were funded through contributions to the Unitil Retiree Trust (URT). (See Note 8).

Off-Balance Sheet Arrangements

The Company does not currently use, and is not dependent on the use of off-balance sheet financing arrangements, such as securitization of receivables, or obtaining access to assets or cash through special purpose entities or variable interest entities. The Company does have an operating lease agreement with a major financial institution. The operating lease is used to finance the Company's utility vehicles. (See Note 3).

Contractual Obligations

The table below lists the Company's significant contractual obligations as of December 31, 2005.

Significant Contractual Obligations (000's) as of December 31, 2005	Total	Payments Due by Period 2006	2007-2008	2009-2010	2011 & Beyond
Long-term Debt	$125,673	$ 308	$ 700	$ 821	$123,844
Capital Lease	645	291	342	11	1
Operating Leases	2,739	390	780	751	818
Power Supply Contract Obligations—MA	57,891	7,904	16,137	16,655	17,195
Power Supply Contract Obligations—NH	57,015	13,847	23,807	14,535	4,826
Gas Supply Contracts	23,612	19,989	2,734	790	99
Total Contractual Cash Obligations	$267,575	$42,729	$44,500	$33,563	$146,783

The Company has material energy supply commitments that are discussed in Note 4. Cash outlays for the purchase of electricity and natural gas to serve our customers are subject to full recovery through periodic changes in rates, with carrying charges on deferred balances. From year to year, there are likely to be timing differences associated with the cash recovery of such costs, creating under- or over-recovery situations at any point in time. Rate recovery mechanisms are typically designed to collect the under-recovered cash or refund the over collected cash over subsequent 6-12 month periods.

The Company also provides limited guarantees on certain electric supply contracts entered into by the retail distribution utilities. The Company's policy is to limit these guarantees to two years or less. As of December 31, 2005 there are $6.0 million of guarantees outstanding and these guarantees extend through October 24, 2007.

Financial Covenants and Restrictions

The agreements under which the long-term debt of the retail distribution utilities, UES and FG&E, were issued contain various covenants and restrictions. These agreements do not contain any covenants or restrictions pertaining to the maintenance of financial ratios or the issuance of short-term debt. These agreements do contain covenants relating to, among other things, the issuance of additional long-term debt, cross-default provisions and business combinations, as described below.

UES utilizes a First Mortgage Bond (FMB) structure of long-term debt. In order to issue new FMB securities, the customary covenants of the existing Indenture Agreement must be met, including that UES have sufficient available net bondable plant to issue the securities and projected earnings available for interest charges equal to at least two times the annual interest requirement. The Indenture Agreements further require that if UES defaults on any FMB securities, it would constitute a default for all UES FMB securities. The default provisions are not triggered by the actions or defaults of Unitil or its other subsidiaries.

FG&E utilizes a debenture structure of long-term debt. Accordingly, in order for FG&E to issue new long-term debt, the covenants of the existing long-term agreements must be satisfied, including that FG&E have total funded indebtedness less than 65% of total capitalization and earnings available for interest equal to at least two times the interest charges for funded indebtedness. As with the Indenture Agreements, FG&E agreements require that if FG&E defaults on any long-term debt agreement, it would constitute a default under all FG&E long-term debt agreements. The FG&E default provisions are not triggered by the actions or defaults of Unitil or its other subsidiaries.

Both the UES and FG&E instruments and agreements contain covenants restricting the ability of each company to incur liens and to enter into sale and leaseback transactions, and restricting the ability of each company to consolidate with, to merge with or into or to sell or otherwise dispose of all or substantially all of its assets.

In addition, the UES and FG&E long-term debt instruments and agreements contain certain restrictions on the payment of common dividends from Retained Earnings. On December 31, 2005, UES and FG&E had unrestricted Retained Earnings of $13,300,000 and $7,842,000, respectively, available for the payment of common dividends. (See Note 3). UES and FG&E pay dividends to their sole shareholder, Unitil Corporation, and these dividends are the primary source of cash for the payment of dividends to Unitil shareholders.

Unitil Corporation has no long-term debt outstanding. The long-term debt and preferred stock of UES and FG&E are privately held, and the Company does not issue commercial paper. For these reasons, these securities of Unitil and its subsidiaries are not publicly rated.

Results of Operations—Cash Flows

Cash Provided by Operating Activities—Cash provided by operating activities was $24.1 million in 2005, a decrease of $6.6 million compared to 2004. This decrease is due to changes in the Company's working capital requirements. Uses of cash for Accounts Receivable increased by $4.9 million due to higher receivable balances at year-end related to higher energy costs in 2005. Sources of cash from Accounts Payable increased by $3.1 million, due to payables on higher year over year wholesale energy contracts. Sources of cash from Prepayments and Other decreased by $4.2 million in 2005, compared to 2004, primarily related to prepayments to wholesale electricity suppliers made in 2003 that were applied in 2004. Income tax payments increased by $3.6 million in 2005 compared to the previous fiscal year. Sources of cash from Other, net increased by $4.1 million in 2005 compared to 2004, due to a refund to customers in 2004 of $1.2 million and an increase of $2.9 million in liabilities related to the Company's retiree benefit plans and other liabilities in 2005. All other changes in cash flows from operating activities were a net increase of $1.1 million in uses of cash in 2005 compared to 2004.

Cash flows from operating activities of $30.6 million increased by $15.0 million in 2004 compared to 2003. This increase is due to changes in the Company's working capital requirements. Sources of cash from Accrued Revenues increased $7.1 million, principally due to the recovery of 2003 deferred energy costs. In addition, sources of cash from Prepayments and Other increased $8.8 million in 2004 compared to 2003, primarily related to prepayments to wholesale electricity suppliers made in 2003 that were applied in 2004. All other changes in cash flows from operating activities were a net increase of ($0.8 million) in uses of cash in 2004 compared to 2003.

	2005	2004	2003
Cash Provided by Operating Activities (000's)	**$24,076**	$30,648	$15,621

Cash (Used in) Investing Activities—Cash flows used in investing activities increased by $1.4 million in 2005 compared to 2004, and by $1.0 million in 2004 as compared to 2003. Cash used in investing activities is primarily for capital expenditures related to UES' and FG&E's electric and gas distribution systems. Capital expenditures are projected to be $37.2 million in 2006, reflecting normal electric and gas utility system additions and a $10.8 million expenditure for the initial phase of the Company's Automated Metering Infrastructure (AMI) project. The 2006 AMI projected expenditures compares with approximately $2.2 million of AMI expenditures in 2005.

	2005	2004	2003
Cash (Used in) Investing Activities (000's)	**$(24,367)**	$(22,922)	$(21,939)

Cash Provided by (Used in) Financing Activities—Cash provided by financing activities was $0.5 million in 2005, principally reflecting financing proceeds from the issuance of $15.0 million of long-term notes and $1.0 million of Common Stock which were substantially offset by the payment of dividends amounting to $7.8 million and repayment of $7.0 million of short-term bank indebtedness.

FG&E consummated, through a private placement, the issuance and sale on December 21, 2005 of $15.0 million of unsecured long-term notes to institutional investors. The notes have a term of 25 years and a coupon rate of 5.90%.

Cash used in financing activities was $8.5 million in 2004. In 2004, cash sources from increasing short-term debt by $3.3 million were offset by cash uses of $3.3 million to repay long-term debt, resulting in no net increase in total debt outstanding. In addition, the Company paid $7.9 million in common and preferred dividends in 2004 and redeemed Preferred Stock for $0.9 million.

Cash provided by financing activities in 2003 was $2.9 million, reflecting financing proceeds of $27.7 million from the issuance of common stock equity and new long-term debt, which was partially offset by the repayment of short-term borrowings of $13.6 million and long-term debt sinking fund payments of $3.2 million.

On October 29, 2003, the Company raised approximately $16.9 million (after deducting underwriting discounts and commissions and the expenses of the offering) through the sale of 717,600 shares of its common stock at a price of $25.40 per share in a registered public offering. The offering was increased from an original 520,000 shares to reflect a 20% upsizing of the transaction (104,000 shares) and the exercise of a 15% underwriters' over-allotment (93,600 shares).

On October 28, 2003, FG&E completed a $10 million private placement of long-term unsecured notes with a major insurance company. The notes have a term of 22 years and a coupon rate of 6.79%.

	2005	2004	2003
Cash Provided by (Used in) Financing Activities (000's)	**$466**	$(8,460)	$2,924

Dividends

Unitil's annualized common dividend was $1.38 per common share in 2005, 2004 and 2003. Unitil's dividend policy is reviewed periodically by the Board of Directors. The amount and timing of all dividend payments are subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial conditions and other factors.

Interest Rate Risk

As discussed above, Unitil meets its external financing needs by issuing short-term and long-term debt. The majority of debt outstanding represents long-term notes bearing fixed rates of interest. Changes in market interest rates do not affect interest expense resulting from these outstanding long-term debt securities. However, the Company periodically repays its short-term debt borrowings through the issuance of new long-term debt securities. Changes in market interest rates may affect the interest rate and corresponding interest expense on any new issuances of long-term debt securities. In addition, short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease interest expense in future periods. For example, if the average amount of short-term debt outstanding of $25 million for the period of one year, a change in interest rates of 1% would result in a change in annual interest expense of approximately $250,000. The average interest rate on short-term borrowings was 3.8%, 1.9% and 1.8% during 2005, 2004 and 2003, respectively.

Market Risk

Although Unitil's utility operating companies are subject to commodity price risk as part of their traditional operations, the current regulatory framework within which these companies operate allows for full collection of electric power and natural gas supply costs in rates on a pass-through basis. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, as discussed above and below in Regulatory Matters, the Company has divested its commodity-related contracts and therefore, further reduced its exposure to commodity risk.

Regulatory Matters

Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 in regards to certain bookkeeping, accounting and reporting requirements. Prior to the passage of the Energy Policy Act of 2005, Unitil and its subsidiaries were subject to regulation as a registered holding company system under the Public Utility Holding Company Act of 1935 (PUHCA) by the SEC with respect to various matters, including: the issuance of securities, capital structure, and certain acquisitions and dispositions of assets. As a result of the enactment of the Energy Policy Act of 2005, PUHCA has been repealed. Unitil's utility operations related to wholesale and interstate business activities are also regulated by FERC. The retail distribution utilities, UES and FG&E, are subject to regulation by the NHPUC and the MDTE, respectively, in regards to their rates, issuance of securities and other accounting and operational matters. Because Unitil's primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company's operations and financial position.

Unitil's retail distribution utilities have the franchise to deliver electricity and/or natural gas to all customers in our franchise areas, at rates established under traditional cost of service regulation. Under this regulatory structure, UES and FG&E recover the cost of providing distribution service to their customers based on a historical test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in Massachusetts and New Hampshire, Unitil's customers have the opportunity to purchase their electric or natural gas supplies from third-party vendors. Most customers, however, continue to purchase such supplies through UES and FG&E as the provider of last resort. UES and FG&E purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual costs of these supplies, without profit or markup, through reconciling rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, Unitil Power and FG&E divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. UES and FG&E recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDTE, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next five to seven years, is $154 million as of December 31, 2005 and is included in Regulatory Assets on the Company's Consolidated Balance Sheet. Unitil's retail distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

FG&E—Electric Division—FG&E's primary business is providing electric distribution service under rates approved by the MDTE in 2002. FG&E had been required to purchase and provide power, as the provider of last resort, through either Standard Offer Service (Standard Offer) or Default Service, for retail customers who chose not to buy, or were unable to purchase, energy from a competitive supplier. The seven year term of Standard Offer, which included a requirement to provide service at rate levels which reflected state-mandated rate reductions, expired on February 28, 2005. FG&E continues to be required to be the supplier of last resort for its customers, however, and on March 1, 2005, customers previously on Standard Offer were automatically placed on Default Service. Prices for Default Service are set periodically based on market solicitations as approved by the MDTE. As of December 31, 2005, competitive suppliers were serving approximately 35 percent of FG&E's electric load.

As a result of the restructuring and the divestiture of FG&E's owned generation assets and buyout of FG&E's power supply obligations, Regulatory Assets on the Company's balance sheets include the following three categories: Power Supply Buyout Obligations associated with the divestiture of its long-term purchase power obligations; Recoverable Deferred Restructuring Charges resulting from the restructuring legislation's seven year rate cap; and Recoverable Generation-related Assets associated with the divestiture of its owned generation plant. FG&E earns carrying charges on the majority of the unrecovered balances of the Recoverable Deferred Restructuring Charges. The value of FG&E's Recoverable Deferred Restructuring Charges and Recoverable Generation-related Assets was approximately $38.0 million at December 31, 2005, and $35.0

million at December 31, 2004, and is expected to be recovered in FG&E's rates over the next five to seven years. In addition, as of December 31, 2005, FG&E had recorded on its balance sheets $57.9 million as Power Supply Buyout Obligations and corresponding Regulatory Assets associated with the divestiture of its long-term purchase power contracts, which are included in Unitil's consolidated financial statements, and on which carrying charges are not earned as the timing of cash disbursements and cash receipts associated with these long-term obligations is matched through rates. See Note 1.

In May, 2005, the MDTE approved a Settlement Agreement among FG&E, the Massachusetts Office of the Attorney General (Attorney General), and representatives of industrial and low-income customers, in regards to future recovery of the deferred and unrecovered amounts described above. The Settlement Agreement provides for a rate path to allow recovery of FG&E's deferred stranded costs.

In March 2003, the MDTE opened an investigation into whether FG&E is in compliance with relevant statutes and regulations pertaining to transactions with affiliated companies and the MDTE's requirements for the pricing and procurement of Default Service. FG&E has asserted that the transaction in question with Enermetrix was not an affiliate transaction and resulted in net benefits to FG&E's customers. Hearing and briefing of the case were completed in 2003 and an MDTE decision is pending. Management believes the outcome of this matter will not have a material adverse effect on the financial position of the Company.

On December 1, 2005, FG&E filed its annual reconciliation and rate filing with the MDTE under its restructuring plan, seeking revised rates for transmission charges, transition charges, and default service adjustment. The revised rates were approved to go into effect January 1, 2006, subject to further investigation. FG&E made similar filings in 2002, 2003, and 2004, which were also approved subject to further investigation. On May 19, 2005, the MDTE, after investigation, issued an order approving FG&E's 2002 filing. Final review of FG&E's 2003 and 2004 filings, and FG&E's 2005 filing which is subject to investigation, are pending. Management believes that these filings will be approved without material change or adjustment.

FG&E—Gas Division—FG&E provides natural gas delivery service to its customers on a firm or interruptible basis under unbundled distribution rates approved by the MDTE in 2002. FG&E's customers may purchase gas supplies from third-party vendors or purchase their gas from FG&E as the provider of last resort. FG&E collects its gas supply costs through a seasonal Cost of Gas Adjustment Clause (CGAC) and recovers other related costs through a reconciling Local Distribution Adjustment Clause. FG&E filed, and received MDTE approval of rate changes for reconciling clauses effective January 1, 2005, May 1, 2005, October 1, 2005 and November 1, 2005.

In 2001, the MDTE required the mandatory assignment of local distribution company's (LDC's) pipeline capacity to competitive marketers selling gas to FG&E's customers, thus protecting FG&E from exposure to costs for stranded capacity. In January 2004, the MDTE opened an investigation on whether the mandatory assignment of pipeline capacity should be continued. On June 6, 2005, the MDTE issued its order ruling that mandatory capacity assignment shall continue.

FG&E—Other—On October 27, 2004 the MDTE approved FG&E's request for a reconciliation rate adjustment mechanism to provide for the recovery of costs associated with the Company's employee pension benefits and Post Retirement Benefits Other than Pension (PBOP) expenses. FG&E is allowed to record a regulatory asset in lieu of taking a charge to expense for the difference between the level of pension and PBOP expenses that are included in its base rates and the amounts that are required to be recorded in accordance with SFAS No. 87 and SFAS No. 106, since the effective date of its last base rate change. This mechanism provides for an annual filing and rate adjustment with the MDTE. As of December 31, 2005, FG&E has recorded a regulatory asset of $2.5 million which is included as part of Regulatory Assets in the Company's Consolidated Balance Sheets. FG&E filed, and received MDTE approval of, revised pension/PBOP adjustment factors (PAFs) effective November 1, 2005 for its gas division and January 1, 2006 for its electric division.

On November 30, 2005, the MDTE announced a change in its method for recovery of gas cost-related bad debt, and determined that it would allow for full recovery of these costs on a reconciling basis. On December 15, 2005, FG&E filed a revised CGAC tariff reflecting this change which was approved effective January 1, 2006. FG&E also requested approval to recover its under-recovered gas cost-related bad debt for 2005 of approximately $164 thousand. A decision on this request is expected in 2006.

UES—UES provides electric distribution service to its customers pursuant to rates established under a 2002 restructuring settlement. On May 1, 2004, these distribution rates were increased by $1.0 million to provide for the recovery of PBOP costs. As the provider of last resort, UES also provides its customers with electric power through either Transition or Default Service at rates which reflect UES' costs for wholesale supply with no profit or markup. UES recovers its costs for this service through reconciling rate mechanisms.

In the 2002 restructuring settlement, the NHPUC approved the divestiture of the long-term power supply portfolio by Unitil Power and tariffs for UES for stranded cost recovery and Transition and Default Service, including certain charges that are subject to annual or periodic reconciliation or future review. As of December 31, 2005, UES had recorded on its balance sheets $57.0 million as Power Supply Contract Obligations and corresponding Regulatory Assets associated with these long-term purchase power stranded costs, which are included in Unitil Corporation's consolidated financial statements. These Power Supply Contract Obligations are expected to be recovered principally over a period of approximately five years. The Company does not earn carrying charges on these regulatory assets as the timing of cash receipts and cash disbursements associated with these long-term obligations is matched through rates.

The NHPUC approved UES' second annual reconciliation and rate filing under its restructuring plan effective May 1, 2005, including revised rates for the Transition Service Charge, Default Service Charge, Stranded Cost Charge, and External Delivery Charge.

On December 11, 2004, UES filed with the NHPUC a Petition for an accounting order to defer certain pension costs above those included in its base rates, until UES filed its next base rate case, which, pursuant to the last base rate case settlement, was required to be filed no later than October 2007 (also see Note 8 below). On April 7, 2005, the NHPUC issued an order denying UES' Petition for an accounting order. In its analysis denying UES' request, the NHPUC indicated that pension expense is an ordinary category of expense included in the revenue requirement for a utility under traditional cost of service ratemaking principles and that a full examination of UES' income and expenses would be undertaken when UES files a rate case. As of December 31, 2005, UES has recorded deferred pension costs of $1.0 million.

On November 4, 2005, UES filed a request for a base rate increase of $4.65 million. The filing includes a request to recover pension and PBOP costs through an annual reconciling rate mechanism, and a step adjustment for certain future rate base additions. The filing also requested that temporary rates be established at current rate levels effective December 4, 2005. On February 3, 2006, the NHPUC issued an order approving this request. Any rate change ultimately awarded by the NHPUC will be retroactive to January 1, 2006. The overall rate filing is currently under review, with an NHPUC order anticipated before November 2006. It is anticipated that the final determination of the amount and method of recovering UES' pension and PBOP costs will be decided in the base rate case. The Company cannot determine the ultimate outcome of this proceeding.

On January 7, 2005, the NHPUC approved UES' petition for a one year extension of Transition Service and Default Service for rate class G1, and the associated solicitation process whereby UES intends to secure energy supplies for such extended service. As a result, UES' Transition Service supply obligation for all rate classes will end at the same time on April 30, 2006. The Company recovers the costs of Transition Service and Default Service in its rates at cost on a pass-through basis and therefore changes in these expenses do not affect earnings.

On April 1, 2005, UES filed a petition with the NHPUC for approval of a plan for procurement of Default Service power supply for service, commencing on May 1, 2006 for all rate classes. A settlement supporting the plan between UES, the Office of Consumer Advocate and the NHPUC Staff, was approved by the NHPUC on

September 9, 2005. Under the approved plan, UES will procure Default Service power for its larger commercial and industrial customers on a quarterly basis, and for its smaller commercial and residential customers through a portfolio of longer term contracts on a semi-annual basis.

Under the 2002 restructuring plan approved by the NHPUC, Unitil Power sold the entitlements to its long-term power supply portfolio to Mirant and UES purchased supplies for Transition and Default Service from Mirant for up to three years. Following the Chapter 11 bankruptcy filing by Mirant in July, 2003, Mirant agreed to continue to perform all obligations under its contracts with Unitil Power and UES pursuant to a settlement approved by the bankruptcy court in December 2003. As a result of the Mirant bankruptcy, UES and Unitil Power also pursued claims with Mirant with regards to a potential future default. In January 2005, UES, Unitil Power and Mirant filed a settlement with the bankruptcy court under which Mirant has agreed to put in place a replacement guarantee, or comparable security, to guarantee performance of its responsibilities under the agreement beginning May 2006. That settlement was approved by the bankruptcy court on January 18, 2005. On January 3, 2006, Mirant emerged from Chapter 11.

FERC—Wholesale Power Market Restructuring—FG&E, UES and Unitil Power are members of the NEPOOL, formed in 1971 to assure reliable operation of the bulk power system in the most economic manner for the region. NEPOOL is governed by the NEPOOL Agreement that is filed with and subject to the jurisdiction of the FERC. Under the NEPOOL Agreement and the OATT, to which virtually all New England electric utilities are parties, substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. The NEPOOL Agreement and the OATT impose generating capacity and reserve obligations, and provide for the use of major transmission facilities and support payments associated therewith. The most notable benefits of NEPOOL are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric supply marketplace. The regional bulk power system is operated by an independent corporate entity, the ISO-NE, in order to avoid any opportunity for conflicting financial interests between the system operator and the market-driven participants.

As of February 1, 2005, a RTO was established in New England. ISO-NE became the entity responsible for operating the RTO. The market rules and requirements to participate in the markets previously covered under the NEPOOL Agreement were transferred to the new RTO structure under control of ISO-NE. FERC approved the formation of the RTO in orders issued March 24, 2004 and November 3, 2004 to begin operation of the RTO structure effective February 1, 2005. As a result of the formation of the RTO, companies seeking transmission service throughout New England will be able to obtain that service under common terms, with much of their focus on dealing with ISO-NE, in cooperation with the local transmission providers. Several parties have appealed various issues associated with the FERC's approval of the RTO to Federal District Court of Appeals. Those proceedings are ongoing.

On March 1, 2004, ISO-NE filed a proposal to implement LICAP in New England to allow for the imposition of incentive pricing for transmission constrained areas. Both UES and FG&E are located in a non-constrained area of the power pool which should have modest LICAP prices for several years under the filed proposal. UES and FG&E have intervened in the proceeding. On October 21, 2005 the FERC issued an order directing that Settlement discussions take place and indicating that implementation of LICAP, if it proceeds, will not be earlier than October 1, 2006. This case continues to be contested at the FERC.

The formation of an RTO, LICAP and other wholesale market changes, including changes to transmission rates, is not expected to have a material impact on Unitil's operations because of the cost recovery mechanisms for wholesale energy costs approved by the MDTE and NHPUC. It is possible, however, that retail rates will be significantly increased over the next several years if LICAP is implemented consistent with the Initial Decision.

FERC—Other—In August 2003, Northeast Utilities (NU) filed with FERC to revise its comprehensive network service transmission rates to establish and implement a formula based rate, replacing a fixed rate tariff. A settlement among certain parties was approved by the FERC in September 2004, which reduced the allowed return on equity in the formula rates and resulted in refunds to the tariff customers, including UES.

On March 30, 2005, NU filed an executed Distribution Service Agreement (DSA) settlement between UES and NU with the FERC for effect on June 1, 2005. The DSA provides for cost recovery by NU for facilities used by UES that had been reclassified from transmission plant to distribution plant. On April 20, 2005 UES intervened in support of the DSA. Costs to UES under the DSA are estimated to be approximately $2 million annually. These costs are expected to be recovered through reconciling cost recovery mechanisms. On May 19, 2005 the FERC accepted NU's DSA filing and the rates went into effect on June 1, 2005.

Environmental Matters

The Company's past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. The Company is in general compliance with all applicable environmental and safety laws and regulations, and management believes that as of December 31, 2005, there are no material losses reasonably possible in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Sawyer Passway MGP Site—The Company continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. FG&E proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection (DEP), which allows the Company to work towards temporary remediation of the site. Work performed in 2002 was associated with the five-year review of the Temporary Solution submittal (Class C Response Action Outcome) under the Massachusetts Contingency Plan (MCP) that was filed for the site in 1997. Completion of this work has confirmed the Temporary Solution status of the site for an additional five years, to January 2008. A status of temporary closure requires FG&E to monitor the site until a feasible permanent remediation alternative can be developed and completed. During 2005, FG&E continued developing a long range plan for a Permanent Solution for the site, including alternatives for re-use of the site.

On May 13, 2004 FG&E discovered an unauthorized excavation by another property owner on the site at Sawyer Passway in which tainted soils related to MGP by-products were exposed and relocated onto property owned by FG&E. FG&E promptly reported this discovery to the DEP and subsequently received a Notice of Responsibility on May 20, 2004. FG&E has properly disposed of the relocated materials and taken other steps in accordance with DEP directives to remedy the situation. The Completion Report for this release was submitted May 9, 2005.

Since 1991, FG&E has recovered the environmental response costs incurred at this former MGP site pursuant to an MDTE approved settlement agreement between the Massachusetts Attorney General and the natural gas utilities of the Commonwealth of Massachusetts (Agreement). The Agreement allows FG&E to amortize and recover from gas customers over succeeding seven-year periods the environmental response costs incurred each year. Environmental response costs are defined to include liabilities related to manufactured gas sites, waste disposal sites or other sites onto which hazardous material may have migrated as a result of the operation or decommissioning of Massachusetts gas manufacturing facilities from 1822 through 1978. In addition, any recovery that FG&E receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between FG&E and its gas customers. The total annual charge for such costs assessed to gas customers cannot exceed five percent of FG&E's total revenue for firm gas sales during the preceding year. Costs in excess of five percent will be deferred for recovery in subsequent years.

Critical Accounting Policies

The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In making those estimates and assumptions, management is sometimes required to make difficult, subjective and/or complex judgments about the impact of matters that are inherently uncertain and for which different estimates that could reasonably have been used could have resulted in material differences in its financial statements. If actual results were to differ significantly from those estimates, assumptions and judgment; the financial position of the Company could be materially affected and the results of operations of the Company could be materially different than reported. The following is a summary of the Company's most critical accounting policies, which are defined as those policies where judgments or uncertainties could materially affect the application of those policies. For a complete discussion of the Company's significant accounting policies, refer to the financial statements and Note 1: Summary of Significant Accounting Policies.

Regulatory Accounting—The Company's principal business is the distribution of electricity and natural gas by the retail distribution companies: UES and FG&E. Both UES and FG&E are subject to regulation by the FERC and FG&E is regulated by the MDTE and UES is regulated by the NHPUC. Accordingly, the Company uses the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, "Accounting for the Effects of Certain Types of Regulation." (SFAS No. 71). In accordance with SFAS No. 71, the Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered or refunded in future electric and gas retail rates.

SFAS No. 71 specifies the economic effects that result from the cause and effect relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or "regulatory assets" under SFAS No. 71. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or "regulatory liabilities" under SFAS No. 71.

The Company's principal regulatory assets and liabilities are detailed on the Company's Consolidated Balance Sheet. The Company is currently receiving or being credited with a return on all of its regulatory assets for which a cash outflow has been made. The Company is currently paying or being charged with a return on all of its regulatory liabilities for which a cash inflow has been received. The Company's regulatory assets and liabilities will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

The application of SFAS No. 71 results in the deferral of costs as regulatory assets that, in some cases, have not yet been approved for recovery by the applicable regulatory commission. Management must conclude that any costs deferred as regulatory assets are probable of future recovery in rates. However, regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company's consolidated financial statements. Management believes it is probable that the Company's regulated utility companies will recover their investments in long-lived assets, including regulatory assets. The Company also has commitments under long-term contracts for the purchase of electricity and natural gas from various suppliers. The annual costs under these contracts are included in Purchased Electricity and Purchased Gas in the Consolidated Statements of Earnings and these costs are recoverable in current and future rates under various orders issued by the FERC, MDTE and NHPUC.

If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of SFAS No. 71. If unable to continue to apply the provisions of SFAS No. 71, the Company would be required to apply the provisions of FASB Statement No. 101, "Regulated

Enterprises—Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71.” In management’s opinion, the Company’s regulated operations will be subject to SFAS No. 71 for the foreseeable future.

Utility Revenue Recognition—Regulated utility revenues are based on rates approved by state and federal regulatory commissions. These regulated rates are applied to customers’ accounts based on their actual or estimated use of energy. Energy sales to customers are based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on estimated customer usage by class and applicable customer rates.

Allowance for Doubtful Accounts—The Company recognizes a Provision for Doubtful Accounts each month. The amount of the monthly Provision is based upon the Company’s experience in collecting electric and gas utility service accounts receivable in prior years. Account write-offs, net of recoveries, are processed monthly. At the end of each month, an analysis of the delinquent receivables is performed and the adequacy of the Allowance for Doubtful Accounts is reviewed. The analysis takes into account an assumption about the cash recovery of delinquent receivables and also uses calculations related to customers who have chosen payment plans to resolve their arrears. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis. Also, the Company has experienced periods when state regulators have extended the periods during which certain standard credit and collection activities of utility companies are suspended. In periods when account write-offs exceed estimated levels, the Company adjusts the Provision for Doubtful Accounts to maintain an adequate Allowance for Doubtful Accounts balance.

Pension and Postretirement Benefit Obligations—The Company has a defined benefit pension plan covering substantially all its employees and also provides certain other post-retirement benefits (PBOP), primarily medical and life insurance benefits to retired employees. The Company also has a Supplemental Executive Retirement Plan (SERP) covering certain executives of the Company. The Company accounts for these benefits in accordance with FASB Statement No. 87, “Employers’ Accounting for Pensions” and FASB Statement No. 106, “Employers’ Accounting for Postretirement Benefits other than Pensions.” In applying these accounting policies, the Company has made critical estimates related to actuarial assumptions, including assumptions of expected returns on plan assets, future compensation, health care cost trends, and appropriate discount rates. For each of these plans, the development of the benefit obligation, fair value of plan assets, funded status and net periodic benefit cost is based on several significant assumptions.

The Company’s reported costs of providing pension and PBOP benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. The Company’s health care cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. Pension and PBOP costs (collectively “postretirement costs”) are affected by actual employee demographics, the level of contributions made to the plans, earnings on plan assets, and health care cost trends. Changes made to the provisions of these plans may also affect current and future postretirement costs. Postretirement costs may also be significantly affected by changes in key actuarial assumptions, including, anticipated rates of return on plan assets and the discount rates used in determining the postretirement costs and benefit obligations. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status and net periodic benefit costs could have a material impact on the Company’s consolidated financial statements. See Note 8.

Pension expense is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on Plan assets. In developing the expected long-term rate of return assumption, the Company evaluated input from actuaries and investment managers. The Company’s expected long-term rate of return on

Plan assets is based on target asset allocation assumptions of 60% in common stock equities and 40% in fixed income securities. The Company will continue to evaluate the actuarial assumptions, including the expected rate of return, at least annually, and will adjust the appropriate assumptions as necessary.

The discount rate that is utilized in determining future pension obligations is based on long-term bonds that receive one of the two highest ratings given by a recognized rating agency. For 2005, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $200,000 in the Net Periodic Pension Cost. Similarly, for 2004 and 2003, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $200,000 and $150,000, respectively. The compensation cost increase assumptions used for 2005, 2004 and 2003 were 3.50%, 3.50% and 4.00%, respectively, based on the expected long-term increase in compensation costs for personnel covered by the Plan.

Income Taxes—Income tax expense is calculated in each of the jurisdictions in which the Company operates for each period for which a statement of income is presented. This process involves estimating the Company's actual current tax liabilities as well as assessing temporary and permanent differences resulting from differing treatment of items, such as timing of the deduction of expenses for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. The Company must also assess the likelihood that the deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not likely, a valuation allowance must be established. Significant management judgment is required in determining income tax expense, deferred tax assets and liabilities and valuation allowances. The Company accounts for deferred taxes under FASB Statement No. 109, "Accounting for Income Taxes." The Company does not currently have any valuation allowances against its recorded deferred tax amounts. See Note 7.

Depreciation—Depreciation expense is calculated based on the useful lives of assets and judgment is involved when estimating the useful lives of certain assets. A change in the estimated useful lives of these assets could have a material impact on the Company's consolidated financial statements. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company's fixed assets.

Commitments and Contingencies—The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with FASB Statement No. 5, "Accounting for Contingencies" (SFAS No. 5). SFAS No. 5 applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2005, the Company is not aware of any material commitments or contingencies other than those disclosed in the Significant Contractual Obligations table in the Contractual Obligations section above and the Commitments and Contingencies footnote to the Company's consolidated financial statements below.

Refer to "Recently Issued Accounting Pronouncements' in Note 1 of the Notes of Consolidated Financial Statements for information regarding recently issued accounting standards.

For further information regarding these types of activities, see Note 1, "Summary of Significant Accounting Policies," Note 7, "Income Taxes," Note 4, "Energy Supply," Note 8, "Benefit Plans," and Note 5, "Commitment and Contingencies," to the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Reference is made to Item 1A. "Risk Factors" and the "Interest Rate Risk" and "Market Risk" sections of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" (above).

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders of Unitil Corporation:

We have audited the accompanying consolidated balance sheet and consolidated statement of capitalization of Unitil Corporation and subsidiaries as of December 31, 2005, and the related consolidated statements of earnings, cash flows and changes in common stock equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Unitil Corporation and subsidiaries as of December 31, 2005 and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Vitale, Caturano & Co. Ltd.

Boston, Massachusetts
February 3, 2006

Report of Independent Registered Public Accounting Firm

To the Shareholders of Unitil Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of Unitil Corporation and subsidiaries as of December 31, 2004, and the related consolidated statements of earnings, cash flows and changes in common stock equity for each of the two years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Unitil Corporation and subsidiaries as of December 31, 2004, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Unitil Corporation's internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 17, 2005 (not separately included herein), expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Boston, Massachusetts
February 17, 2005

Report of Independent Registered Public Accounting Firm

To the Shareholders of Unitil Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that Unitil Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Unitil Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control-Integrated Framework* issued by the COSO. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in the *Internal Control-Integrated Framework* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet and consolidated statements of capitalization of Unitil Corporation and subsidiaries as of December 31, 2005, and the related consolidated statements of earnings, cash flows and changes in common stock equity for the year then ended, and our report dated February 3, 2006, expressed an unqualified opinion on those consolidated financial statements.

/s/ Vitale, Caturano & Co. Ltd.

Boston, Massachusetts
February 3, 2006

CONSOLIDATED STATEMENTS OF EARNINGS

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

Year Ended December 31,	**2005**	**2004**	**2003**
Operating Revenues:			
Electric	**$ 197,338**	$ 183,889	$ 190,864
Gas	**32,768**	28,685	28,612
Other	**2,039**	1,563	1,178
Total Operating Revenues	**232,145**	214,137	220,654
Operating Expenses:			
Purchased Electricity	**138,134**	125,940	134,036
Purchased Gas	**21,225**	17,486	17,421
Operation and Maintenance	**24,514**	23,297	22,706
Conservation & Load Management	**4,115**	4,003	3,930
Depreciation and Amortization	**19,123**	18,830	18,756
Provisions for Taxes:			
Local Property and Other	**5,218**	5,182	4,805
Federal and State Income	**4,275**	4,206	3,551
Total Operating Expenses	**216,604**	198,944	205,205
Operating Income	**15,541**	15,193	15,449
Other Non-Operating Expenses (Income)	**147**	193	(40)
Income Before Interest Expense	**15,394**	15,000	15,489
Interest Expense, net	**6,841**	6,774	7,531
Net Income	**8,553**	8,226	7,958
Less Dividends on Preferred Stock	**156**	215	236
Earnings Applicable to Common Shareholders	**$ 8,397**	$ 8,011	$ 7,722
Average Common Shares Outstanding—Basic	**5,551,420**	5,509,321	4,877,933
Average Common Shares Outstanding—Diluted	**5,567,718**	5,524,835	4,896,329
Earnings per Common Share—Basic and Diluted	**$ 1.51**	$ 1.45	$ 1.58

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

CONSOLIDATED BALANCE SHEETS (000's)

ASSETS

December 31,	2005	2004
Utility Plant:		
Electric	**$234,153**	$222,121
Gas	**58,675**	53,208
Common	**26,515**	28,271
Construction Work in Progress	**5,624**	4,454
Utility Plant	**324,967**	308,054
Less: Accumulated Depreciation	**111,646**	104,051
Net Utility Plant	**213,321**	204,003
Current Assets:		
Cash	**3,207**	3,032
Accounts Receivable—(Net of Allowance for Doubtful Accounts of $470 and $501)	**23,631**	18,119
Accrued Revenue	**8,905**	9,754
Refundable Taxes	**351**	977
Material and Supplies	**3,675**	3,080
Prepayments and Other	**1,612**	1,771
Total Current Assets	**41,381**	36,733
Noncurrent Assets:		
Regulatory Assets	**179,719**	199,608
Prepaid Pension	**11,099**	10,990
Debt Issuance Costs, net	**2,343**	2,265
Other Noncurrent Assets	**2,218**	3,411
Total Noncurrent Assets	**195,379**	216,274
TOTAL	**$450,081**	$457,010

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

CONSOLIDATED BALANCE SHEETS (cont.) (000's)

CAPITALIZATION AND LIABILITIES

December 31,	2005	2004
Capitalization:		
Common Stock Equity	**$ 96,283**	$ 94,291
Preferred Stock, Non-Redeemable, Non-Cumulative	**225**	225
Preferred Stock, Redeemable, Cumulative	**2,102**	2,113
Long-Term Debt, Less Current Portion	**125,365**	110,675
Total Capitalization	**223,975**	207,304
Current Liabilities:		
Long-Term Debt, Current Portion	**308**	285
Capitalized Leases, Current Portion	**261**	413
Accounts Payable	**20,600**	16,249
Short-Term Debt	**18,700**	25,675
Dividends Declared and Payable	**50**	50
Refundable Customer Deposits	**2,031**	1,545
Interest Payable	**1,353**	1,328
Other Current Liabilities	**2,677**	5,607
Total Current Liabilities	**45,980**	51,152
Deferred Income Taxes	**52,297**	56,156
Noncurrent Liabilities:		
Power Supply Contract Obligations	**114,906**	140,448
Capitalized Leases, Less Current Portion	**324**	183
Other Noncurrent Liabilities	**12,599**	1,767
Total Noncurrent Liabilities	**127,829**	142,398
TOTAL	**$450,081**	$457,010

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

CONSOLIDATED STATEMENTS OF CAPITALIZATION

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

December 31,	2005	2004
Common Stock Equity		
Common Stock, No Par Value (Authorized—8,000,000 shares; Outstanding—5,595,523 and 5,546,620 shares)	**$ 60,826**	$ 59,795
Stock Compensation Plans	**1,310**	1,059
Retained Earnings	**34,147**	33,437
Total Common Stock Equity	**96,283**	94,291
Preferred Stock		
UES Preferred Stock, Non-Redeemable, Non-Cumulative:		
6.00% Series, $100 Par Value	**225**	225
FG&E Preferred Stock, Redeemable, Cumulative:		
5.125% Series, $100 Par Value	**892**	899
8.00% Series, $100 Par Value	**1,210**	1,214
Total Preferred Stock	**2,327**	2,338
Long-Term Debt		
UES First Mortgage Bonds:		
8.49% Series, Due October 14, 2024	**15,000**	15,000
6.96% Series, Due September 1, 2028	**20,000**	20,000
8.00% Series, Due May 1, 2031	**15,000**	15,000
FG&E Long-Term Notes:		
6.75% Notes, Due November 30, 2023	**19,000**	19,000
7.37% Notes, Due January 15, 2029	**12,000**	12,000
7.98% Notes, Due June 1, 2031	**14,000**	14,000
6.79% Notes, Due October 15, 2025	**10,000**	10,000
5.90% Notes, Due December 15, 2030	**15,000**	—
Unitil Realty Corp. Senior Secured Notes:		
8.00% Notes, Due August 1, 2017	**5,673**	5,960
Total Long-Term Debt	**125,673**	110,960
Less: Long-Term Debt, Current Portion	**308**	285
Total Long-Term Debt, Less Current Portion	**125,365**	110,675
Total Capitalization	**$223,975**	$207,304

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

CONSOLIDATED STATEMENTS OF CASH FLOWS *(000's)*

Year Ended December 31,	2005	2004	2003
Operating Activities:			
Net Income	**$ 8,553**	$ 8,226	$ 7,958
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:			
Depreciation and Amortization	**19,123**	18,830	18,756
Deferred Tax (Benefit) Provision	**(240)**	3,166	6,375
Changes in Current Assets and Liabilities:			
Accounts Receivable	**(5,512)**	(658)	2,052
Accrued Revenue	**849**	275	(6,795)
Refundable Taxes	**626**	2,839	1,035
Materials and Supplies	**(595)**	(219)	(538)
Prepayments and Other	**159**	4,375	(4,411)
Accounts Payable	**4,351**	1,225	803
Refundable Customer Deposits	**486**	116	93
Interest Payable	**25**	(28)	45
Other Current Liabilities	**1,311**	1,353	(4,808)
Deferred Restructuring and Other Charges	**(6,256)**	(5,900)	(6,058)
Other, net	**1,196**	(2,952)	1,114
Cash Provided by Operating Activities	**24,076**	30,648	15,621
Investing Activities:			
Property, Plant and Equipment Additions	**(24,367)**	(22,922)	(21,939)
Cash Used In Investing Activities	**(24,367)**	(22,922)	(21,939)
Financing Activities:			
Proceeds from (Repayment of) Short-Term Debt	**(6,975)**	3,265	(13,580)
Issuance of Long-Term Debt	**15,000**	—	10,000
Repayment of Long-Term Debt	**(286)**	(3,264)	(3,244)
Retirement of Preferred Stock	**(11)**	(931)	(53)
Dividends Paid	**(7,843)**	(7,857)	(7,056)
Issuance of Common Stock	**1,031**	947	17,628
Repayment of Capital Lease Obligations	**(450)**	(620)	(771)
Cash Provided by (Used In) Financing Activities	**466**	(8,460)	2,924
Net Increase (Decrease) in Cash	**175**	(734)	(3,394)
Cash at Beginning of Year	**3,032**	3,766	7,160
Cash at End of Year	**$ 3,207**	$ 3,032	$ 3,766
Supplemental Information:			
Interest Paid	**$ 9,455**	$ 9,052	$ 9,113
Income Taxes Paid (Refunded)	**$ 4,544**	$ 990	$ (2,541)
Supplemental Schedule of Noncash Activities:			
Capital Leases Incurred	**$ 439**	$ 246	$ 109

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

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

(000's except number of shares)

	Common Shares	Stock Compensation Plans	Retained Earnings	Total
Balance at January 1, 2003	$41,220	$ 990	$32,140	**$74,350**
Net Income for 2003			7,958	**7,958**
Dividends on Preferred Shares			(236)	**(236)**
Dividends on Common Shares			(6,813)	**(6,813)**
Stock Compensation Plans		(82)		**(82)**
Common Stock Offering—717,600 Shares	16,911			**16,911**
Issuance of 28,714 Common Shares	717			**717**
Balance at December 31, 2003	58,848	908	33,049	**92,805**
Net Income for 2004			8,226	**8,226**
Dividends on Preferred Shares			(215)	**(215)**
Dividends on Common Shares			(7,623)	**(7,623)**
Stock Compensation Plans		151		**151**
Issuance of 35,310 Common Shares	947			**947**
Balance at December 31, 2004	59,795	1,059	33,437	**94,291**
Net Income for 2005			8,553	**8,553**
Dividends on Preferred Shares			(156)	**(156)**
Dividends on Common Shares			(7,687)	**(7,687)**
Stock Compensation Plans		251		**251**
Issuance of 38,003 Common Shares	1,031			**1,031**
Balance at December 31, 2005	**$60,826**	**$1,310**	**$34,147**	**$96,283**

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

Note 1: Summary of Significant Accounting Policies

Nature of Operations—Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005. Prior to the passage of the Energy Policy Act of 2005, Unitil and its subsidiaries were subject to regulation as a registered holding company system under the Public Utility Holding Company Act of 1935 (PUHCA) by the Securities and Exchange Commission (SEC). As a result of the enactment of the Energy Policy Act of 2005, PUHCA has been repealed. The following companies are wholly-owned subsidiaries of Unitil: Unitil Energy Systems, Inc. (UES) (formed in 2002 by the combination and merger of Unitil's former utility subsidiaries Concord Electric Company and Exeter & Hampton Electric Company), Fitchburg Gas and Electric Light Company (FG&E), Unitil Power Corp. (Unitil Power), Unitil Realty Corp. (Unitil Realty), Unitil Service Corp. (Unitil Service) and its non-regulated business unit Unitil Resources, Inc. (Unitil Resources). Usource, Inc. and Usource L.L.C. are subsidiaries of Unitil Resources.

Unitil's principal business is the retail distribution of electricity in the southeastern seacoast and capital city areas of New Hampshire and the retail distribution of both electricity and natural gas in the greater Fitchburg area of north central Massachusetts, through the Company's two wholly owned subsidiaries, UES and FG&E, collectively referred to as the retail distribution utilities.

A third utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for UES. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of UES on May 1, 2003 and divested of its long-term power supply contracts through the sale of the entitlements to the electricity associated with various electric power supply contracts it had acquired to serve UES' customers.

Unitil also has three other wholly-owned subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company's corporate office in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Resources is the Company's wholly-owned non-utility unregulated subsidiary that provides consulting and management related services. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly-owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to large commercial and industrial customers in the northeastern United States.

Basis of Presentation

Principles of Consolidation—In accordance with current accounting pronouncements, the Company's consolidated financial statements include the accounts of Unitil and all of its wholly-owned subsidiaries and all intercompany transactions are eliminated in consolidation.

Regulatory Accounting—The Company's principal business is the distribution of electricity and natural gas in the Company-owned retail distribution utilities: UES and FG&E. Both UES and FG&E are subject to regulation by the FERC and FG&E is regulated by the Massachusetts Department of Telecommunications and Energy (MDTE) and UES is regulated by the New Hampshire Public Utilities Commission (NHPUC). Accordingly, the Company uses the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). In accordance with SFAS No. 71, the Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered in future electric and gas retail rates.

SFAS No. 71 specifies the economic effects that result from the cause and effect relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or "regulatory assets" under SFAS No. 71. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or "regulatory liabilities" under SFAS No. 71.

The Company's principal regulatory assets and liabilities are detailed on the Company's Consolidated Balance Sheet and a summary of the Company's Regulatory Assets is provided below. The Company is currently receiving or being credited with a return on all of its regulatory assets for which a cash outflow has been made. The Company is currently paying or being charged with a return on all of its regulatory liabilities for which a cash inflow has been received. The Company's regulatory assets and liabilities will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

The application of SFAS No. 71 results in the deferral of costs as regulatory assets that, in some cases, have not yet been approved for recovery by the applicable regulatory commission. Management must conclude that any costs deferred as regulatory assets are probable of future recovery in rates. However, regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company's consolidated financial statements. Management believes it is probable that the Company's regulated utility companies will recover their investments in long-lived assets, including regulatory assets. The Company also has commitments under long-term contracts for the purchase of electricity and natural gas from various suppliers. The annual costs under these contracts are included in Purchased Electricity and Purchased Gas in the Consolidated Statements of Earnings and these costs are recoverable in current and future rates under various orders issued by the FERC, MDTE and NHPUC.

	December 31,	
Regulatory Assets consist of the following (000's)	**2005**	**2004**
Power Supply Buyout Obligations	**$114,906**	$140,448
Income Taxes	**17,546**	20,670
Recoverable Deferred Restructuring Charges	**35,826**	30,840
Recoverable Generation-related Assets	**3,316**	5,169
Pension / Post-retirement Benefits Other than Pension	**8,125**	2,481
Total Regulatory Assets	**$179,719**	$199,608

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

If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of SFAS No. 71. If unable to continue to apply the provisions of SFAS No. 71, the Company would be required to apply the provisions of FASB Statement No. 101, "Regulated Enterprises—Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71." In management's opinion, the Company's regulated subsidiaries will be subject to SFAS No. 71 for the foreseeable future.

Cash—Cash includes all cash and cash equivalents to which the Company has legal title. Cash equivalents include short-term investments with original maturities of three months or less and interest bearing deposits. Financial instruments that subject the Company to credit risk concentrations consist of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are held at financial institutions and at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

Goodwill and Intangible Assets—The Company does not have any goodwill recorded on its balance sheet as of December 31, 2005. There are no significant intangible assets recorded by the Company at December 31, 2005. Therefore, the Company is not currently involved in making estimates or seeking valuations of these items.

Off-Balance Sheet Arrangements—As of December 31, 2005, the Company does not have any significant arrangements that would be classified as Off-Balance Sheet Arrangements. In the ordinary course of business, the Company does contract for certain office equipment, vehicles and other equipment under operating leases and, in management's opinion, the amount of these transactions is not material.

Investments and Trading Activities—During the year, the Company does invest in U.S. Treasuries and short-term investments which traditionally have very little fluctuation in fair value. The Company does not engage in investing or trading activities involving non-exchange traded contracts or other instruments where a periodic analysis of fair value would be required for book accounting purposes.

Derivatives—The Company enters into wholesale electric and gas energy supply contracts to serve its customers. The Company's policy is to review each contract and determine whether they meet the criteria for classification as derivatives under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) and / or FASB Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). As of December 31, 2005, the Company determined that none of its wholesale electric and gas energy supply contracts met the criteria for classification as a derivative instrument. Additionally, the Company may enter into interest rate hedging transactions with respect to existing indebtedness and anticipated debt offerings. As of December 31, 2005, the Company has not entered into any such transactions. However, should the Company enter into any such transactions in the future, its policy will be to review each transaction and determine whether it meets the criteria for classification as derivatives under SFAS No. 133 and / or SFAS No. 149.

Utility Revenue Recognition—Regulated utility revenues are based on rates approved by federal and state regulatory commissions. These regulated rates are applied to customers' accounts based on their actual or estimated use of energy. Energy sales to customers are based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on estimated customer usage by class and applicable customer rates.

Revenue Recognition—Non-regulated Operations—Usource, Unitil's competitive energy brokering subsidiary, records energy brokering revenues based upon the estimated amount of electricity and gas delivered to customers through the end of the accounting period.

Allowance for Doubtful Accounts—The Company recognizes a Provision for Doubtful Accounts each month. The amount of the monthly Provision is based upon the Company's experience in collecting electric and gas utility service accounts receivable in prior years. Account write-offs, net of recoveries, are processed monthly. At the end of each month, an analysis of the delinquent receivables is performed and the adequacy of the Allowance for Doubtful Accounts is reviewed. The analysis takes into account an assumption about the cash recovery of delinquent receivables and also uses calculations related to customers who have chosen payment plans to resolve their arrears. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. Evaluating the adequacy of the Allowance for

Doubtful Accounts requires judgment about the assumptions used in the analysis. Also, the Company has experienced periods when state regulators have extended the periods during which certain standard credit and collection activities of utility companies are suspended. In periods when account write-offs exceed estimated levels, the Company adjusts the Provision for Doubtful Accounts to maintain an adequate Allowance for Doubtful Accounts balance.

Pension and Postretirement Benefit Obligations—The Company has a defined benefit pension plan covering substantially all its employees and also provides certain other post-retirement benefits (PBOP), primarily medical and life insurance benefits to retired employees. The Company also has a Supplemental Executive Retirement Plan (SERP) covering certain executives of the Company. The Company accounts for these benefits in accordance with FASB Statement No. 87, "Employers' Accounting for Pensions" (SFAS No. 87) and FASB Statement No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions" (SFAS No. 106). In applying these accounting policies, the Company has made critical estimates related to actuarial assumptions, including assumptions of expected returns on plan assets, future compensation, health care cost trends, and appropriate discount rates. For each of these plans, the development of the benefit obligation, fair value of plan assets, funded status and net periodic benefit cost is based on several significant assumptions.

The Company's reported costs of providing pension and PBOP benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. The Company's health care cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. Pension and PBOP costs (collectively "postretirement costs") are affected by actual employee demographics, the level of contributions made to the plans, earnings on plan assets, and health care cost trends. Changes made to the provisions of these plans may also affect current and future postretirement costs. Postretirement costs may also be significantly affected by changes in key actuarial assumptions, including, anticipated rates of return on plan assets and the discount rates used in determining the postretirement costs and benefit obligations. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status and net periodic benefit costs could have a material impact on the Company's consolidated financial statements. See Note 8.

Pension income is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on Plan assets of 8.50%, 8.75% and 8.75% for 2005, 2004 and 2003, respectively. In developing the expected long-term rate of return assumption, the Company evaluated input from actuaries and investment managers. The Company's expected long-term rate of return on Plan assets is based on target asset allocation assumptions of 60% in common stock equities and 40% in fixed income securities. The combination of these target allocations and expected returns resulted in the overall assumed long-term rate of return of 8.50% for 2005. The Company will continue to evaluate the actuarial assumptions, including the expected rate of return, at least annually, and will adjust the appropriate assumptions as necessary.

The Company bases the actuarial determination of pension expense on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a three-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the fair value of assets. Since the market-related value of assets recognizes gains or losses over a three-year period, the future value of the market-related assets will be impacted as previously deferred gains or losses are recognized. The Company's pension expense for the years 2005, 2004 and 2003 was $2,391,745, $1,981,667 and $1,106,827, respectively. Had the Company used the fair value of assets instead of the market-related value, pension expense for the years 2005, 2004 and 2003 would have been $2,225,181, $2,119,667 and $2,332,699 respectively.

The discount rate that is utilized in determining future pension obligations is based on a market average of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. For the period January 1, 2005 through May 31, 2005, the discount rate used was 6.50%. In May 2005, the Company reached agreements with its union labor bargaining units for new five-year contracts, effective June 1, 2005, which resulted in amendments to the defined benefit pension plan. Effective for the period of June 1, 2005 through December 31, 2005, the Company lowered the assumed discount rate to 6.00%. The discount rates used for the 2004 and 2003 fiscal years were 6.50% and 7.00%, respectively. For 2005, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $200,000 in the Net Periodic Pension Cost. Similarly, for 2004 and 2003, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $200,000 and $150,000, respectively. The compensation cost increase assumptions used for 2005, 2004 and 2003 were 3.50%, 3.50% and 4.00%, respectively, based on the expected long-term increase in compensation costs for personnel covered by the Plan.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and requires disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company policy is to record those estimates in accordance with the American Institute of Certified Public Accountants Statement of Position 94-6, "Disclosure of Certain Significant Risks and Uncertainties."

Commitments and Contingencies—The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with FASB Statement No. 5, "Accounting for Contingencies" (SFAS No. 5). SFAS No. 5 applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2005, the Company is not aware of any material commitments or contingencies other than those disclosed in the Commitments and Contingencies footnote to the Company's consolidated financial statements below. See Note 5.

Utility Plant—The cost of additions to Utility Plant and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The average interest rates applied to AFUDC were 2.33%, 1.64% and 2.14% in 2005, 2004 and 2003, respectively. The costs of current repairs and minor replacements are charged to appropriate operating expense accounts. The original cost of utility plant retired or otherwise disposed of and the cost of removal, less salvage, are charged to the accumulated provision for depreciation. The Company does not account separately for negative salvage, or cost of retirement obligations as defined in FASB Statement No. 143, "Accounting for Asset Retirement Obligations" and FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations." The Company includes in its mass asset depreciation rates, which are periodically reviewed as part of its ratemaking proceedings, depreciation amounts to provide for future negative salvage value. At December 31, 2005 and December 31, 2004, the Company estimates that the negative salvage value of future retirements recorded on the balance sheet in Accumulated Depreciation is $13.4 million and $12.7 million, respectively.

Depreciation and Amortization—Depreciation expense is calculated based on the useful lives of assets, and judgment is involved when estimating the useful lives of certain assets. A change in the estimated useful lives of these assets could have a material impact on the Company's consolidated financial statements. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company's fixed assets.

Depreciation provisions for Unitil's utility operating subsidiaries are determined on a group straight-line basis. Provisions for depreciation were equivalent to the following composite rates, based on the average depreciable property balances at the beginning and end of each year: 2005 – 4.69%, 2004 – 4.70% and 2003 – 4.73%.

Amortization provisions include the recovery of a portion of FG&E's former investment in Seabrook Station, a nuclear generating unit, in rates to its customers through the Seabrook Amortization Surcharge as ordered by the

MDTE. FG&E's asset related to Seabrook Station became fully-amortized in the third quarter of 2005. In addition, FG&E is amortizing the balance of its unrecovered electric generating related assets, which are recorded as Regulatory Assets, in accordance with its electric restructuring plan approved by the MDTE. See Note 5.

Environmental Matters—The Company's past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. In the past three years, the Company has performed work on two environmental remediation projects, the Sawyer Passway MGP Site and the Former Electric Generating Station. The Company has or will recover substantially all of the cost of the work performed to date from customers or from its insurance carriers. The Company is in general compliance with all applicable environmental and safety laws and regulations, and management believes that as of December 31, 2005, there are no material losses that would require additional liability reserves to be recorded. Changes in future environmental compliance regulations or in future cost estimates of environmental remediation costs could have a material effect on the Company's financial position if those amounts are not recoverable in regulatory rate mechanisms.

Stock-based Employee Compensation—Unitil accounts for stock-based employee compensation currently using the fair value-based method. See Note 2.

Income Taxes—Income tax expense is calculated in each of the jurisdictions in which the Company operates for each period for which a statement of income is presented. This process involves estimating the Company's actual current tax liabilities as well as assessing temporary and permanent differences resulting from differing treatment of items, such as timing of the deduction of expenses for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. The Company must also assess the likelihood that the deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not likely, a valuation allowance must be established. Significant management judgment is required in determining income tax expense, deferred tax assets and liabilities and valuation allowances. The Company accounts for deferred taxes under FASB Statement No. 109, "Accounting for Income Taxes" (SFAS No. 109). The Company does not currently have any valuation allowances against its recorded deferred tax amounts. See Note 7.

Dividends—The Company is currently paying a dividend at an annual rate of $1.38 per common share.

The Company's dividend policy is reviewed periodically by the Board of Directors. The amount and timing of all dividend payments is subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial conditions and other factors.

Recently Issued Pronouncements—In May 2005, the FASB issued FASB Statement No. 154, "Accounting Changes and Error Corrections", (SFAS No. 154), which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also provides that (1) a change in the method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a "restatement." The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The Company has adopted SFAS No. 154 and determined that it does not expect that it will have an impact on the Company's Consolidated Financial Statements.

In December 2004, the FASB issued revised Statement No. 123(R), "Share-Based Payment" (SFAS No. 123(R), effective as of the beginning of the first annual reporting period that begins after June 15, 2005. SFAS No. 123(R) requires all entities to recognize the fair value of share-based payment awards classified in equity, unless they are unable to reasonably estimate the fair value of the award. The Company uses the fair value method for share-based payment awards and therefore the provisions of SFAS No. 123(R) will have no impact on the Consolidated Financial Statements.

In January 2004 and May 2004, the FASB issued, respectively, Statement No. 106-1 (SFAS No. 106-1) and Statement No. 106-2 (SFAS No. 106-2), "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", (the Act). The Act includes a subsidy to a plan sponsor that is based on 28 percent of an individual beneficiary's annual prescription drug costs between $250 and $5,000 and the opportunity for a retiree to obtain a prescription drug benefit under Medicare. SFAS No. 106-1 and SFAS No. 106-2 require the disclosure of the effects, if any, of the Act on the reported measure of the accumulated postretirement benefit obligation and how that effect has been, or will be, reflected in the net postretirement benefit costs of current or subsequent periods. On January 28, 2005, the final Medicare Part D Prescription Drug Rules were posted to the Federal Register. Based on these rules, the Company's estimated PBOP Projected Benefit Obligation was reduced by $5.1 million. Also, the Company has estimated that its annual PBOP costs will be reduced by $0.4 million under the Act. These reductions are reflected in the Company's Consolidated Financial Statements. The Company's health care insurance provider has concluded that the Company's PBOP Plan is equal to or better than standard Medicare Part D coverage. Additionally, the Company's recognition of the Act is not expected to have any impact on the rate of participation in the PBOP Plan or per capita claims.

In December 2003, the FASB issued Statement No. 132(R) (SFAS 132(R)), a revision of its original Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS 132). SFAS 132(R) revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS No. 87, FASB Statement No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" and SFAS No. 106". SFAS 132(R) retains the disclosure requirements contained in SFAS 132 and requires additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The Company adopted this statement in 2003.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) and in December 2003 issued a revised FIN 46. This interpretation clarified the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and replaced the current accounting guidance relating to the consolidation of variable interest entities (VIE's) established on the basis of contractual, ownership or other monetary interests. The Company reviewed its investments and affiliations and determined that it had a variable interest in the Unitil Retiree Trust (URT), a special purpose entity established January 1993. URT was an organization of retirees, incorporated in 1993 to provide social, health and welfare benefits to its members, who are eligible former employees of the Company. URT was under the direction of an independent Board of Trustees whose voting members were comprised of former employees of the Company, elected by and from the membership of URT. In the fourth quarter of 2003, URT was dissolved by a vote of its trustees and the Company assumed the obligations of URT as of October 1, 2003. There are no other entities identified by the Company that qualify as VIE's under FIN 46. See Note 8 for additional discussion regarding FIN 46 and the Company's accounting for Postretirement Benefits other than Pensions.

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

Note 2: Equity

The Company has both common and preferred stock outstanding. Details regarding these forms of capitalization follow:

Common Stock

Public Offering 2003—On October 29, 2003, the Company raised approximately $16.9 million (after deducting underwriting discounts and commissions and the estimated expenses of the offering) through the sale of 717,600 shares of its common stock at a price of $25.40 per share in a registered public offering. The offering was increased from an original 520,000 shares to reflect a 20% upsizing of the transaction (104,000 shares) and the exercise of a 15% underwriters' over-allotment (93,600 shares). The Company used the proceeds from this offering to make capital contributions of $6 million to UES and $6 million to FG&E and for other general corporate purposes.

Dividend Reinvestment and Stock Purchase Plan—During 2005, the Company sold 38,003 shares of its Common Stock, at an average price of $27.15 per share, in connection with its Dividend Reinvestment and Stock Purchase Plan (DRP) and its 401(k) plans. Net proceeds of $1,031,786 were used to reduce short-term borrowings. The DRP provides participants in the plan a method for investing cash dividends on the Company's Common Stock and cash payments in additional shares of the Company's Common Stock. During 2004 and 2003, the Company raised $946,883 and $716,936, respectively, of additional common equity through the issuance of 35,310 and 28,714 shares, respectively, of its Common Stock in connection with its DRP and 401(k) plans.

Shares Repurchased, Cancelled and Retired—During 2005, 2004 and 2003, Unitil did not repurchase, cancel or retire any of its common stock.

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

Restricted Stock Plan—On April 17, 2003, the Company's shareholders ratified and approved a Restricted Stock Plan (the Plan) which had been approved by the Company's Board of Directors at its January 16, 2003 meeting. Participants in the Plan are selected by the Compensation Committee of the Board of Directors from the eligible Participants to receive an annual award of restricted shares of Company Common Stock. The Compensation Committee has the power to determine the sizes of awards; determine the terms and conditions of awards in a manner consistent with the Plan; construe and interpret the Plan and any agreement or instrument entered into under the Plan as they apply to participants; establish, amend, or waive rules and regulations for the Plan's administration as they apply to participants; and, subject to the provisions of the Plan, amend the terms and conditions of any outstanding award to the extent such terms and conditions are within the discretion of the Compensation Committee as provided in the Plan. Awards fully vest over a period of four years at a rate of 25% each year. During the vesting period, dividends on restricted shares underlying the Award may be credited to the participant's account. Awards may be grossed up to offset the participant's tax obligations in connection with the Award. Prior to the end of the vesting period, the restricted shares are subject to forfeiture if the participant ceases to be employed by the Company other than due to the participant's death. The maximum number of shares of Restricted Stock available for awards to participants under the Plan is 177,500. The maximum aggregate number of shares of Restricted Stock that may be awarded in any one calendar year to any one participant is 20,000. In the event of any change in capitalization of the Company, the Compensation Committee is authorized to make proportionate adjustments to prevent dilution or enlargement of rights, including, without limitation, an adjustment in the maximum number and kinds of shares available for awards and in the annual award limit. On March 8, 2005, 10,900 restricted shares were issued in conjunction with the Plan with an aggregate market value at the date of issuance of $299,423. On April 29, 2004, 10,700 restricted shares were issued in conjunction with the Plan with an aggregate market value at the date of issuance of $293,715. On May 12, 2003, 10,600 restricted shares were issued in conjunction with the Plan with an aggregate market value at the date of issuance of $259,170. The compensation expense associated with the issuance of shares under the Plan is being accrued on a monthly basis over the vesting period and was $265,900 in 2005, including amounts for tax gross-up.

Unitil Corporation Key Employee Stock Option Plan—The "Unitil Corporation Key Employee Stock Option Plan" was a 10-year plan which began in March 1989. The number of shares underlying options granted under this plan, as well as the terms and conditions of each grant, were determined by the Key Employee Stock Option Plan Committee of the Board of Directors, subject to plan limitations. At December 31, 2005, 29,101 shares underlying options had been approved and were available for future issuance as dividend equivalents earned under the plan. All options granted under this plan vested upon grant. The 10-year period in which options could be granted under this plan expired in March 1999. The expiration date of the remaining outstanding options is November 3, 2007. The plan provides dividend equivalents on options granted, which are recorded at fair value as compensation expense. The total compensation expenses recorded by the Company with respect to this plan were $51,000, $49,000 and $46,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

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

	2005	2004	2003
Beginning Options Outstanding and Exercisable	**25,000**	25,000	25,000
Dividend Equivalents Earned—Prior Years	**11,321**	9,495	7,645
Dividend Equivalents Earned—Current Year	**1,881**	1,826	1,850
Options Exercised	**—**	—	—
Ending Options Outstanding and Exercisable	**38,202**	36,321	34,495
Weighted Average Exercise Price per Share	**$11.89**	$12.51	$13.17
Range of Option Exercise Price per Share	**$12.11-$18.28**	$12.11-$18.28	$12.11-$18.28
Weighted Average Remaining Contractual Life	**1.9 years**	2.9 years	3.9 years

Unitil Corporation 1998 Stock Option Plan—The "Unitil Corporation 1998 Stock Option Plan" became effective on December 11, 1998. The number of shares granted under this plan, as well as the terms and conditions of each grant, are determined by the Compensation Committee of the Board of Directors, subject to plan limitations. All options granted under this plan vest over a three-year period from the date of the grant, with 25% vesting on the first anniversary of the grant, 25% vesting on the second anniversary, and 50% vesting on the third anniversary. Under the terms of this plan, key employees may be granted options to purchase the Company's Common Stock at no less than 100% of the market price on the date the option is granted. All options must be exercised no later than 10 years after the date on which they were granted. There was no compensation expense associated with this plan in 2005 and 2004. The total compensation expense recorded by the Company with respect to this plan was ($178,000) for the year ended December 31, 2003, reflecting a reversal of prior compensation expense due to stock option forfeitures. This plan was terminated on January 16, 2003. The plan will remain in effect solely for the purposes of the continued administration of all options currently outstanding under the plan. No further grants of options will be made under this plan.

	2005		2004		2003	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Beginning Options Outstanding	**107,000**	**$27.13**	107,000	$27.13	172,500	$26.99
Options Granted	**—**	**—**	—	—	—	—
Options Forfeited	**—**	**—**	—	—	(65,500)	$26.77
Ending Options Outstanding	**107,000**	**$27.13**	107,000	$27.13	107,000	$27.13
Options Vested and Exercisable-end of year	**107,000**	**$27.13**	107,000	$27.13	107,000	$27.13

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

The following summarizes certain data for options outstanding at December 31, 2005:

Range of Exercise Prices	Options Vested, Exercisable and Outstanding	Weighted Average Exercise Price	Remaining Contractual Life
$20.00-$24.99	34,500	$23.38	3.2 years
$25.00-$29.99	37,500	$25.88	5.1 years
$30.00-$34.99	35,000	$32.17	4.1 years
	107,000		

There were no options granted during 2005, 2004 or 2003.

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

Its two retail distribution subsidiaries, UES and FG&E, do have restrictions. Under the terms of the First Mortgage Bond Indentures, UES had $13,300,000 available for the payment of cash dividends on its Common Stock at December 31, 2005. Under the terms of long-term debt purchase agreements, FG&E had $7,842,000 of retained earnings available for the payment of cash dividends on its Common Stock at December 31, 2005. Common dividends declared by UES and FG&E are paid exclusively to Unitil Corporation.

Preferred Stock

Unitil's two retail distribution companies, UES and FG&E, have preferred stock outstanding. At December 31, 2005, UES has a 6.00% Series Non-Redeemable, Non-Cumulative Preferred Stock series outstanding and FG&E has two series of Redeemable, Cumulative Preferred Stock outstanding, the 5.125% Series and the 8.00% Series.

FG&E is required to offer to redeem annually a given number of shares of each series of Redeemable, Cumulative Preferred Stock and to purchase such shares that shall have been tendered by holders of the respective stock. In addition, FG&E may opt to redeem the Redeemable, Cumulative Preferred Stock at a given redemption price, plus accrued dividends.

The aggregate purchases of Redeemable, Cumulative Preferred Stock during 2005, 2004 and 2003 related to the annual redemption offer were $11,400, $26,900 and $53,400, respectively. The aggregate amount of sinking fund requirements of the Redeemable, Cumulative Preferred Stock for each of the five years following 2005 is $117,000 per year.

On October 15, 2004, UES redeemed and retired the remaining three outstanding issues of its Redeemable, Cumulative Preferred Stock at par, aggregating $904,100. The three issues redeemed and retired were the 8.70% Series (aggregate par value of $215,000), the 8.75% Series (aggregate par value of $313,600) and the 8.25% Series (aggregate par value of $375,500). UES used operating cash to effect this transaction.

Note 3: Long-Term Debt, Credit Arrangements, Leases and Guarantees

The Company funds a portion of its operations through the issuance of long-term debt and through short-term borrowing arrangements. The Company's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their machinery and office equipment. Details regarding long-term debt, short-term debt and leases follow:

Long-Term Debt and Interest Expense

Substantially all the property of Unitil's New Hampshire utility operating subsidiary, UES, is subject to liens of indenture under which First Mortgage bonds have been issued. UES utilizes a First Mortgage Bond (FMB) structure of long-term debt. In order to issue new FMB securities, the customary covenants of the existing

UES Indenture Agreement must be met, including that UES have sufficient available net bondable plant to issue the securities and projected earnings available for interest charges equal to at least two times the annual interest requirement. The UES agreements further require that if UES defaults on any UES FMB securities, it would constitute a default for all UES FMB securities. The UES default provisions are not triggered by the actions or defaults of other companies in the Unitil System.

All of the long-term debt of Unitil's Massachusetts utility operating subsidiary, FG&E, is issued under Unsecured Promissory Notes with negative pledge provisions. Each issue of FG&E's long-term debt ranks pari passu with its other senior unsecured long-term debt. The long-term debt's negative pledge provisions contain restrictions which, among other things, limit the incursion of additional long-term debt. Accordingly, in order for FG&E to issue new long-term debt, the covenants of the existing long-term agreements must be satisfied, including that FG&E have total funded indebtedness less than 65% of total capitalization and earnings available for interest equal to at least two times the interest charges for funded indebtedness. As with the UES agreements, FG&E agreements require that if FG&E defaults on any FG&E long-term debt agreement, it would constitute a default under all FG&E long-term debt agreements. The FG&E default provisions are not triggered by the actions or defaults of other companies in the Unitil System.

Both the UES and FG&E instruments and agreements contain covenants restricting the ability of each company to incur liens and to enter into sale and leaseback transactions, and restricting the ability of each company to consolidate with, to merge with or into, or to sell or otherwise dispose of all or substantially all of its assets.

Total aggregate amount of sinking fund payments relating to bond issues and normal scheduled long-term debt repayments amounted to $286,368, $3,264,421 and $3,244,156 in 2005, 2004 and 2003, respectively.

The aggregate amount of bond sinking fund requirements and normal scheduled long-term debt repayments for each of the five years following 2005 is: 2006 – $308,082, 2007 – $335,877, 2008 – $363,755, 2009 – $393,946 and 2010 – $426,643.

FG&E, through a private placement, consummated the issuance and sale on December 21, 2005 of $15 million of unsecured long-term notes to institutional investors. The notes have a term of 25 years and a coupon rate of 5.90%. The net proceeds were used to reduce FG&E's outstanding short-term indebtedness.

On October 28, 2003, FG&E completed a $10 million private placement of long-term unsecured notes with a major insurance company. The notes have a term of 22 years and a coupon rate of 6.79%. The net proceeds were used to replace short-term indebtedness.

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the Company's long-term debt at December 31, 2005 is estimated to be in a range of up to approximately $140 million, before considering any costs, including prepayment costs, to market the Company's debt. Currently, management believes that there is no active market in the Company's debt securities, which have all been sold through private placements.

The agreements under which the long-term debt of Unitil's two principal subsidiaries, UES and FG&E, were issued contain various covenants and restrictions. These agreements do not contain any covenants or restrictions pertaining to the maintenance of financial ratios or the issuance of short-term debt. These agreements do contain covenants relating to, among other things, the issuance of additional long-term debt, cross-default provisions and business combinations.

Interest Expense, net—Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and interest on regulatory liabilities. Interest income is mainly derived from carrying charges on restructuring related stranded costs and other deferred costs recorded as regulatory assets by the Company's retail distribution utilities as approved by regulators in New

Hampshire and Massachusetts. Over the long run, as deferred costs are recovered through rates, the interest costs associated with these deferrals are expected to decrease together with a decrease in interest income. A summary of interest expense and interest income is provided in the following table:

Interest Expense, net (000's)	2005	2004	2003
Interest Expense			
Long-term Debt	**$ 8,423**	$ 8,492	$ 8,170
Short-term Debt	**1,046**	629	1,071
Subtotal Interest Expense	**9,469**	9,121	9,241
Interest Income			
Regulatory Assets	**(2,525)**	(2,310)	(1,657)
AFUDC and Other	**(103)**	(37)	(53)
Subtotal Interest Income	**(2,628)**	(2,347)	(1,710)
Total Interest Expense, net	**$ 6,841**	$ 6,774	$ 7,531

Credit Arrangements

At December 31, 2005, Unitil had unsecured committed bank lines for short-term debt in the aggregate amount of $44.0 million with three banks for which it pays commitment fees. The weighted average interest rates on all short-term borrowings were 3.8%, 1.9% and 1.8% during 2005, 2004 and 2003, respectively. The Company had short-term debt outstanding through bank borrowings of approximately $18.7 million and $25.7 million at December 31, 2005 and December 31, 2004, respectively.

Leases

Unitil's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their vehicles, machinery and office equipment. FG&E had a 22-year facility lease in which the primary term was scheduled to end on January 31, 2003. On February 1, 2003, a 10-year extended term commenced extending the lease term through January 31, 2013. Furthermore, the amended lease agreement allows for three additional five-year renewal periods at the option of FG&E. This lease, as well as other leases for equipment used by Unitil's subsidiaries, is recorded as an operating lease. In prior years, this lease was classified as a capital lease. The change in classification was the result of the renegotiation of the lease terms described above.

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

	Asset Balances at December 31,	
Classes of Utility Plant (000's)	2005	2004
Common Plant	**$985**	$2,769
Less: Accumulated Depreciation	**400**	2,197
Net Plant	**$585**	$ 572

The following is a schedule of future minimum lease payments and present value of net minimum lease payments under capital leases, as of December 31, 2005:

Year Ending December 31 (000's)	
2006	$291
2007	203
2008	139
2009	9
2010	2
2011-2015	1
Total Minimum Lease Payments	$645
Less: Amount Representing Interest	60
Present Value of Net Minimum Lease Payments	$585

Total rental expense charged to operations for the years ended December 31, 2005, 2004 and 2003 amounted to $301,000, $249,000 and $294,000 respectively.

The following is a schedule of future operating lease payment obligations as of December 31, 2005:

Year Ending December 31 (000's)	
2006	$ 390
2007	390
2008	390
2009	387
2010	364
2011-2015	818
Total Future Operating Lease Payments	$2,739

Guarantees

The Company also provides limited guarantees on certain energy contracts entered into by the retail distribution utilities. The Company's policy is to limit these guarantees to two years or less. As of December 31, 2005 there are $6.0 million of guarantees outstanding and these guarantees extend through October 24, 2007. These guarantees are not required to be recorded under the provisions of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."

Note 4: Energy Supply

Electricity Supply:

Unitil's customers in both New Hampshire and Massachusetts now have the opportunity to purchase their electric supply from competitive retail suppliers, though most customers continue to purchase such supplies through the retail distribution utilities. The transition to retail choice required the divestiture of Unitil's existing power supply arrangements and the procurement of replacement supplies which provided the flexibility for migration of customers to and from utility service. FG&E, UES, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the Independent System Operator—New England (ISO-NE) markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve Unitil's retail customers.

Wyman Unit No. IV—FG&E continues to have a 0.1822% non-operating ownership interest in the Wyman Unit No. IV (Wyman IV), an oil-fired electric generating station located in Yarmouth, Maine. The lead operating owner of Wyman IV is FPL Energy Wyman IV, LLC. In accordance with the electric industry restructuring in Massachusetts, and pursuant to the generation assets and power supply divestiture process discussed below, FG&E effectively divested its economic interest in Wyman IV when it entered into an agreement with Select Energy, Inc. to, among other things, sell its entire entitlement in the output from Wyman IV over the expected remaining operating life of the unit. Kilowatt-hour generation and operating expenses associated with Wyman IV are divided on the same basis as ownership. FG&E's proportionate ownership costs in Wyman IV are reflected in the Consolidated Statements of Earnings. Revenues from the entitlement sale of Wyman IV reflect a matching and collection of these costs. Accordingly, the cost associated with FG&E's ownership in Wyman IV does not have a material impact on earnings.

Information with respect to FG&E's ownership in Wyman Unit No. IV, at December 31, 2005, is shown below:

Joint Ownership Unit	State	Proportionate Ownership	Share of Total MW	Company's Net Book Value (000's)
Wyman Unit No. IV	ME	0.1822%	1.13	$40

Power Supply Divestiture

Prior to May 1, 2003, UES purchased all of its power supply from Unitil Power under the Unitil System Agreement, a FERC-regulated tariff, which provided for the recovery of all of Unitil Power's power supply-related costs on a cost pass-through basis. Effective May 1, 2003, UES and Unitil Power amended the Unitil System Agreement, such that power sales from Unitil Power to UES ceased and Unitil Power sold substantially all of its entitlements under the remaining portfolio of power supply contracts. Under the amended Unitil System Agreement UES continues to pay contract release payments to Unitil Power for costs associated with the portfolio sale and its other ongoing, power supply-related costs. Recovery of the contract release payments by UES from its retail customers has been approved by the NHPUC.

Unitil Power divested its long-term power supply contracts to a subsidiary of Mirant in 2003. The purchase of power to supply UES' Transition Service and Default Service requirements by UES from Mirant was linked to the Unitil Power divestiture. The NHPUC Order completed the state approval process for Unitil's restructuring plan under which UES implemented customer choice for its customers on May 1, 2003. The divested power supply contracts continue through October 2010.

In March 1999, FG&E completed the sale of its 4.5% interest in the New Haven Harbor Station generating unit. FG&E divested its remaining owned generation assets and long-term power supply contracts to Select Energy, Inc., a subsidiary of Northeast Utilities. Under the Select Energy contract, which was approved by the MDTE in January 2000, and went into effect February 1, 2000, FG&E began selling the entire output from its remaining long-term power supply contracts and the output of its two joint ownership units, Millstone Unit 3 and Wyman IV, to Select Energy. Upon the sale of FG&E's share of Millstone Unit 3 in 2001, this portion of the contract sale ceased. Effective with the termination of the Purchased Power Contract between FG&E and Linweave, Inc. on December 1, 2004, this portion of the contract sale also ceased. On December 30, 2005 Select Energy assigned the FG&E contracts portfolio to Constellation Energy Commodities Group (Constellation) effective January 1, 2006. Recovery of all costs associated with the divestiture of the FG&E power supply portfolio has been approved by the MDTE.

Regulated Energy Supply

In order to provide regulated electric supply as the provider of last resort to their respective retail customers, the retail distribution companies enter into wholesale electric power supply contracts with various wholesale suppliers. In particular, FG&E has entered into power supply contracts to meet its power supply obligations associated with the provision of Standard Offer Service (Standard Offer) and Default Service. Standard Offer was offered only to customers who had both taken service from FG&E since the inception of retail choice in 1998 and had not switched to a competitive retail supplier. Consistent with MDTE regulations, Standard Offer ended January 31, 2005. Effective February 1, 2005 FG&E customers are eligible for Default Service. FG&E has power supply contracts with various wholesale suppliers for the provision of Default Service. MDTE policy dictates the pricing structure and duration of each of these contracts. Currently, all Default Service power supply contracts for large general accounts are three months in duration. Default Service power supply contracts for residential and small and medium general service customers are acquired every 6 months, with each 12 month contract providing 50% of the class requirements.

The MDTE is investigating alternatives to the current procurement policy for all accounts, other than the large general accounts. This process could potentially lead to the procurement of FG&E Default Service power supply for longer duration in order to provide more price stability for smaller customers throughout Massachusetts for whom competitive retail options are relatively scarce.

UES has entered into a power supply contract to meet its power supply obligations associated with the provision of Transition Service and Default Service. Transition Service is available to any UES customer who has not chosen a competitive retail supplier. UES' Default Service is available to any customer who has chosen a competitive retail energy supplier and returns to retail energy supply from UES. UES has entered into a power supply contract for the provision of Transition Service and Default Service with Mirant. This power supply contract provides fixed unit prices for both Transition Service and Default Service for UES' largest general service accounts through April 2005 and for all other accounts through April 2006.

On July 14, 2003 Mirant filed for Chapter 11 Bankruptcy protection. Mirant is currently performing all of its contractual obligations to both Unitil Power and UES and has satisfied all of its pre-petition claims made by Unitil. On January 3, 2006 Mirant emerged from Chapter 11 Bankruptcy protection.

In January, 2005 the NHPUC approved two six-month supply contracts for Transition Service and Default Service for UES' large general service customers for the period May, 2005 through April, 2006. In September, 2005 the NHPUC approved a Settlement among UES, NHPUC Staff and the Office of Consumer Advocate which provides for UES to procure Default Service for its largest general service accounts through successive competitive solicitations of three-months duration and to procure Default Service for all other customers through a series of two one-year contracts and two three-year contracts with each contract covering 25% of the total requirements of the group. The first two contracts were of 6-months and 18-months duration in order to stagger the start dates of future 1-year and 3-year procurements. On November 2, 2005, the NHPUC approved those two initial Default Service contracts for service starting May 1, 2006.

Regional Transmission and Power Markets

FG&E, UES and Unitil Power are members of the NEPOOL, formed in 1971 to assure reliable operation of the bulk power system in the most economic manner for the region. NEPOOL is governed by the NEPOOL Agreement that is filed with and subject to the jurisdiction of the FERC. Under the NEPOOL Agreement and the OATT, to which virtually all New England electric utilities are parties, substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. The NEPOOL Agreement and the OATT impose generating capacity and reserve obligations, and provide for the use of major transmission facilities and support payments associated therewith. The most notable benefits of NEPOOL are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric marketplace. The regional bulk power system is operated by an independent corporate entity, ISO-NE, in order to avoid any opportunity for conflicting financial interests between the system operator and the market-driven participants.

As of February 1, 2005, a RTO was established in New England. ISO-NE became the entity responsible for operating the RTO. The market rules and requirements to participate in the markets previously covered under the NEPOOL Agreement were transferred to the new RTO structure under control of ISO-NE. FERC approved the formation of the RTO in orders issued March 24, 2004 and November 3, 2004 to begin operation of the RTO structure effective February 1, 2005. As a result of the formation of the RTO, companies seeking transmission service throughout New England will be able to obtain that service under common terms, with much of their focus on dealing with ISO-NE, in cooperation with the local transmission providers.

On March 1, 2004, ISO-NE filed a proposal to implement LICAP in New England to allow for the imposition of incentive pricing for transmission constrained areas. UES and FG&E have intervened in the proceeding. Both UES and FG&E are located in a non-constrained area of the power pool. On October 21, 2005 the FERC issued an order directing that Settlement discussions take place and indicating that implementation of LICAP, if it proceeds, will not be earlier than October 1, 2006. This case is still before the FERC.

The formation of an RTO, LICAP and other wholesale market changes are not expected to have a material impact on Unitil's operations because of the cost recovery mechanisms for wholesale energy and transmission costs approved by the MDTE and NHPUC.

Gas Supply:

FG&E's natural gas customers now have the opportunity to purchase their natural gas supply from third-party vendors, though most customers continue to purchase such supplies at regulated rates through FG&E as the provider of last resort. The costs associated with the acquisition of such wholesale natural gas supplies for customers who do not contract with third-party suppliers are recovered through periodically-adjusted rates and are included in Purchased Gas in the Consolidated Statements of Earnings.

FG&E purchases natural gas from domestic and Canadian suppliers under contracts of one year or less, as well as from producers and marketers on the spot market and arranges for the transportation to its distribution facilities under firm long-term contracts with the Tennessee interstate pipeline. FG&E has a four-year contract for LNG supply which ends in 2008 which was approved by the MDTE. The following tables summarize actual gas purchases by source of supply and the cost of gas sold for the years 2003 through 2005.

Sources of Gas Supply

(Expressed as percent of total MMBtu of gas purchased)

	2005	2004	2003
Natural Gas:			
Domestic firm	**84.8%**	85.0%	94.0%
Canadian firm	**3.4%**	5.4%	1.3%
Domestic spot market	**9.3%**	5.9%	1.3%
Total natural gas	**97.5%**	96.3%	96.6%
Supplemental gas	**2.5%**	3.7%	3.4%
Total gas purchases	**100.0%**	100.0%	100.0%

Cost of Gas Sold

	2005	2004	2003
Cost of gas purchased and sold per MMBtu	**$10.83**	$8.42	$7.14
Percent Increase (Decrease) from prior year	**28.7%**	17.9%	43.9%

FG&E has available under firm contract 14,057 MMBtu per day of year-round and seasonal transportation and underground storage capacity to its distribution facilities. As a supplement to pipeline natural gas, FG&E owns a propane air gas plant and a liquefied natural gas (LNG) storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

Note 5: Commitments and Contingencies

Regulatory Matters

Overview—Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 in regards to certain bookkeeping, accounting and reporting requirements. Prior to the passage of the Energy Policy Act of 2005, Unitil and its subsidiaries were subject to regulation as a registered holding company system under the Public Utility Holding Company Act of 1935 (PUHCA) by the SEC with respect to various matters, including: the issuance of securities, capital structure, and certain acquisitions and dispositions of assets. As a result of the enactment of the Energy Policy Act of 2005, PUHCA has been repealed. Unitil's utility operations related to wholesale and interstate business activities are also regulated by FERC. The retail distribution utilities, UES and FG&E, are subject to regulation by the NHPUC and the MDTE, respectively, in regards to their rates, issuance of securities and other accounting and operational matters. Because Unitil's primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company's operations and financial position.

Unitil's retail distribution utilities have the franchise to deliver electricity and/or natural gas to all customers in our franchise areas, at rates established under traditional cost of service regulation. Under this regulatory structure, UES and FG&E recover the cost of providing distribution service to their customers based on a historical test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in Massachusetts and New Hampshire, Unitil's customers have the opportunity to purchase their electric or natural gas supplies from third-party vendors. Most customers, however, continue to purchase such supplies through UES and FG&E as the provider of last resort. UES and FG&E purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual costs of these supplies, without profit or markup on a pass-through basis, through reconciling rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, Unitil Power and FG&E divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. UES and FG&E recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDTE, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next five to seven years, is $154 million as of December 31, 2005 and is included in Regulatory Assets on the Company's Consolidated Balance Sheet. Unitil's retail distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

FG&E—Electric Division—FG&E's primary business is providing electric distribution service under rates approved by the MDTE in 2002. FG&E had been required to purchase and provide power, as the provider of last resort, through either Standard Offer or Default Service, for retail customers who chose not to buy, or were unable to purchase, energy from a competitive supplier. The seven year term of Standard Offer, which included a requirement to provide service at rate levels which reflected state-mandated rate reductions, expired on February 28, 2005. FG&E continues to be required to be the supplier of last resort for its customers, however, and on March 1, 2005, customers previously on Standard Offer were automatically placed on Default Service. Prices for Default Service are set periodically based on market solicitations as approved by the MDTE. As of December 31, 2005, competitive suppliers were serving approximately 35 percent of FG&E's electric load.

As a result of the restructuring and the divestiture of FG&E's owned generation assets and buyout of FG&E's power supply obligations, Regulatory Assets on the Company's balance sheets include the following three categories: Power Supply Buyout Obligations associated with the divestiture of its long-term purchase power obligations; Recoverable Deferred Restructuring Charges resulting from the restructuring legislation's seven year rate cap; and Recoverable Generation-related Assets associated with the divestiture of its owned generation plant. FG&E earns carrying charges on the majority of the unrecovered balances of the Recoverable Deferred Restructuring Charges. The value of FG&E's Recoverable Deferred Restructuring Charges and Recoverable Generation-related Assets was approximately $38.0 million at December 31, 2005, and $35.0

million at December 31, 2004, and is expected to be recovered in FG&E's rates over the next five to seven years. In addition, as of December 31, 2005, FG&E had recorded on its balance sheets $57.9 million as Power Supply Buyout Obligations and corresponding Regulatory Assets associated with the divestiture of its long-term purchase power contracts, which are included in Unitil's consolidated financial statements, and on which carrying charges are not earned as the timing of cash disbursements and cash receipts associated with these long-term obligations is matched through rates. See Note 1.

In May, 2005, the MDTE approved a Settlement Agreement among FG&E, the Massachusetts Office of the Attorney General (Attorney General), and representatives of industrial and low-income customers, in regards to future recovery of the deferred amounts described above. The Settlement Agreement provides for a rate path to allow recovery of FG&E's deferred stranded costs.

In March 2003, the MDTE opened an investigation into whether FG&E is in compliance with relevant statutes and regulations pertaining to transactions with affiliated companies and the MDTE's requirements for the pricing and procurement of Default Service. FG&E has asserted that the transaction in question with Enermetrix was not an affiliate transaction and resulted in net benefits to FG&E's customers. Hearing and briefing of the case were completed in 2003 and an MDTE decision is pending. Management believes the outcome of this matter will not have a material adverse effect on the financial position of the Company.

On December 1, 2005, FG&E filed its annual reconciliation and rate filing with the MDTE under its restructuring plan, seeking revised rates for transmission charges, transition charges, and default service adjustment. The revised rates were approved to go into effect January 1, 2006, subject to further investigation. FG&E made similar filings in 2002, 2003, and 2004, which were also approved subject to further investigation. On May 19, 2005, the MDTE, after investigation, issued an order approving FG&E's 2002 filing. Final review of FG&E's 2003 and 2004 filings, and FG&E's 2005 filing which is subject to investigation, are pending. Management believes that these filings will be approved without material changes or adjustments.

FG&E—Gas Division—FG&E provides natural gas delivery service to its customers on a firm or interruptible basis under unbundled distribution rates approved by the MDTE in 2002. FG&E's customers may purchase gas supplies from third-party vendors or purchase their gas from FG&E as the provider of last resort. FG&E collects its gas supply costs through a seasonal CGAC and recovers other related costs through a reconciling Local Distribution Adjustment Clause. FG&E filed, and received MDTE approval of rate changes for reconciling clauses effective January 1, 2005, May 1, 2005, October 1, 2005 and November 1, 2005.

In 2001, the MDTE required the mandatory assignment of LDC's pipeline capacity to competitive marketers selling gas to FG&E's customers, thus protecting FG&E from exposure to costs for stranded capacity. In January 2004, the MDTE opened an investigation on whether the mandatory assignment of pipeline capacity should be continued. On June 6, 2005, the MDTE issued its order ruling that mandatory capacity assignment shall continue.

FG&E—Other—On October 27, 2004 the MDTE approved FG&E's request for a reconciliation rate adjustment mechanism to provide for the recovery of costs associated with the Company's employee pension benefits and PBOP expenses. FG&E is allowed to record a regulatory asset in lieu of taking a charge to expense for the difference between the level of pension and PBOP expenses that are included in its base rates and the amounts that are required to be recorded in accordance with SFAS No. 87 and SFAS No. 106, since the effective date of its last base rate change. This mechanism provides for an annual filing and rate adjustment with the MDTE. As of December 31, 2005, FG&E has recorded a regulatory asset of $2.5 million which is included as part of Regulatory Assets in the Company's Consolidated Balance Sheets. FG&E filed, and received MDTE approval of, revised pension/PBOP adjustment factors (PAFs) effective November 1, 2005 for its gas division and January 1, 2006 for its electric division.

On November 30, 2005, the MDTE announced a change in its method for recovery of gas cost-related bad debt, and determined that it would allow for full recovery of these costs on a reconciling basis. On December 15, 2005, FG&E filed a revised CGAC tariff reflecting this change which was approved effective January 1, 2006. FG&E also requested approval to recover its under-recovered gas cost-related bad debt for 2005 of approximately $164 thousand. A decision on this request is expected in 2006.

UES—UES provides electric distribution service to its customers pursuant to rates established under a 2002 restructuring settlement. On May 1, 2004, these distribution rates were increased by $1.0 million to provide for the recovery of PBOP costs. As the provider of last resort, UES also provides its customers with electric power through either Transition or Default Service at rates which reflect UES' costs for wholesale supply with no profit or markup. UES recovers its costs for this service on a pass-through basis through reconciling rate mechanisms.

In the 2002 restructuring settlement, the NHPUC approved the divestiture of the long-term power supply portfolio by Unitil Power and tariffs for UES for stranded cost recovery and Transition and Default Service, including certain charges that are subject to annual or periodic reconciliation or future review. As of December 31, 2005, UES had recorded on its balance sheets $57.0 million as Power Supply Contract Obligations and corresponding Regulatory Assets associated with these long-term purchase power stranded costs, which are included in Unitil Corporation's consolidated financial statements. These Power Supply Contract Obligations are expected to be recovered principally over a period of approximately five years. The Company does not earn carrying charges on these regulatory assets as the timing of cash receipts and cash disbursements associated with these long-term obligations is matched through rates.

The NHPUC approved UES' second annual reconciliation and rate filing under its restructuring plan effective May 1, 2005, including revised rates for the Transition Service Charge, Default Service Charge, Stranded Cost Charge, and External Delivery Charge.

On December 11, 2004, UES filed with the NHPUC a Petition for an accounting order to defer certain pension costs above those included in its base rates, until UES filed its next base rate case, which, pursuant to the last base rate case settlement, was required to be filed no later than October 2007 (also see Note 8 below). On April 7, 2005, the NHPUC issued an order denying UES' Petition for an accounting order. In its analysis denying UES' request, the NHPUC indicated that pension expense is an ordinary category of expense included in the revenue requirement for a utility under traditional cost of service ratemaking principles and that a full examination of UES' income and expenses would be undertaken when UES files a rate case. As of December 31, 2005, UES has recorded deferred pension costs of $1.0 million.

On November 4, 2005, UES filed a request for a base rate increase of $4.65 million. The filing includes a request to recover pension and PBOP costs through an annual reconciling rate mechanism, and a step adjustment for certain future rate base additions. The filing also requested that temporary rates be established at current rate levels effective December 4, 2005. On February 3, 2006, the NHPUC issued an order approving this request. Any rate change ultimately awarded by the NHPUC will be retroactive to January 1, 2006. The overall rate filing is currently under review, with an NHPUC order anticipated before November 2006. It is anticipated that the final determination of the amount and method of recovering UES' pension and PBOP costs will be decided in the base rate case. The Company cannot determine the ultimate outcome of this proceeding. The Company expects a decision in 2006.

On January 7, 2005, the NHPUC approved UES' petition for a one year extension of Transition Service and Default Service for rate class G1, and the associated solicitation process whereby UES intends to secure energy supplies for such extended service. As a result, UES' Transition Service supply obligation for all rate classes will end at the same time on April 30, 2006. The Company recovers the costs of Transition Service and Default Service in its rates at cost on a pass-through basis and therefore changes in these expenses do not affect earnings.

On April 1, 2005, UES filed a petition with the NHPUC for approval of a plan for procurement of Default Service power supply for service, commencing on May 1, 2006 for all rate classes. A settlement supporting the plan between UES, the Office of Consumer Advocate and the NHPUC Staff, was approved by the NHPUC on

September 9, 2005. Under the approved plan, UES will procure Default Service power for its larger commercial and industrial customers on a quarterly basis, and for its smaller commercial and residential customers through a portfolio of longer term contracts on a semi-annual basis.

Under the 2002 restructuring plan approved by the NHPUC, Unitil Power sold the entitlements to its long-term power supply portfolio to Mirant and UES purchased supplies for Transition and Default Service from Mirant for up to three years. Following the Chapter 11 bankruptcy filing by Mirant in July, 2003, Mirant agreed to continue to perform all obligations under its contracts with Unitil Power and UES pursuant to a settlement approved by the bankruptcy court in December 2003. As a result of the Mirant bankruptcy, UES and Unitil Power also pursued claims with Mirant with regards to a potential future default. In January 2005, UES, Unitil Power and Mirant filed a settlement with the bankruptcy court under which Mirant has agreed to put in place a replacement guarantee, or comparable security, to guarantee performance of its responsibilities under the agreement beginning May 2006. That settlement was approved by the bankruptcy court on January 18, 2005. On January 3, 2006, Mirant emerged from Chapter 11.

FERC—Wholesale Power Market Restructuring—FG&E, UES and Unitil Power are members of the NEPOOL, formed in 1971 to assure reliable operation of the bulk power system in the most economic manner for the region. NEPOOL is governed by the NEPOOL Agreement that is filed with and subject to the jurisdiction of the FERC. Under the NEPOOL Agreement and the OATT, to which virtually all New England electric utilities are parties, substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. The NEPOOL Agreement and the OATT impose generating capacity and reserve obligations, and provide for the use of major transmission facilities and support payments associated therewith. The most notable benefits of NEPOOL are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric marketplace. The regional bulk power system is operated by an independent corporate entity, the ISO-NE, in order to avoid any opportunity for conflicting financial interests between the system operator and the market-driven participants.

As of February 1, 2005, a RTO was established in New England. ISO-NE became the entity responsible for operating the RTO. The market rules and requirements to participate in the markets previously covered under the NEPOOL Agreement were transferred to the new RTO structure under control of ISO-NE. FERC approved the formation of the RTO in orders issued March 24, 2004 and November 3, 2004 to begin operation of the RTO structure effective February 1, 2005. As a result of the formation of the RTO, companies seeking transmission service throughout New England will be able to obtain that service under common terms, with much of their focus on dealing with ISO-NE, in cooperation with the local transmission providers. Several parties have appealed various issues associated with the FERC's approval of the RTO to Federal District Court of Appeals. Those proceedings are ongoing.

On March 1, 2004, ISO-NE filed a proposal to implement LICAP in New England to allow for the imposition of incentive pricing for transmission constrained areas. Both UES and FG&E are located in a non-constrained area of the power pool which should have modest LICAP prices for several years under the filed proposal. UES and FG&E have intervened in the proceeding. On October 21, 2005 the FERC issued an order directing that Settlement discussions take place and indicating that implementation of LICAP, if it proceeds, will not be earlier than October 1, 2006. This case continues to be contested at the FERC.

The formation of an RTO, LICAP and other wholesale market changes, including changes to transmission rates, is not expected to have a material impact on Unitil's operations because of the cost recovery mechanisms for wholesale energy costs approved by the MDTE and NHPUC. It is possible, however, that retail rates will be significantly increased over the next several years if LICAP is implemented consistent with the Initial Decision.

FERC—Other—In August 2003, NU filed with FERC to revise its comprehensive network service transmission rates to establish and implement a formula based rate, replacing a fixed rate tariff. A settlement among certain parties was approved by the FERC in September 2004, which reduced the allowed return on equity in the formula rates and resulted in refunds to the tariff customers, including UES.

On March 30, 2005, NU filed an executed DSA settlement between UES and NU with the FERC for effect on June 1, 2005. The DSA provides for cost recovery by NU for facilities used by UES that had been reclassified from transmission plant to distribution plant. On April 20, 2005 UES intervened in support of the DSA. Costs to UES under the DSA are estimated to be approximately $2 million annually. These costs are expected to be recovered through reconciling cost recovery mechanisms. On May 19, 2005 the FERC accepted NU's DSA filing and the rates went into effect on June 1, 2005.

Environmental Matters

The Company's past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. The Company is in general compliance with all applicable environmental and safety laws and regulations, and management believes that as of December 31, 2005, there are no material losses reasonably possible in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Sawyer Passway MGP Site—The Company continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. FG&E proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection (DEP), which allows the Company to work towards temporary remediation of the site. Work performed in 2002 was associated with the five-year review of the Temporary Solution submittal (Class C Response Action Outcome) under the Massachusetts Contingency Plan (MCP) that was filed for the site in 1997. Completion of this work has confirmed the Temporary Solution status of the site for an additional five years, to January 2008. A status of temporary closure requires FG&E to monitor the site until a feasible permanent remediation alternative can be developed and completed.

During 2005, FG&E continued developing a long range plan for a Permanent Solution for the site, including alternatives for re-use of the site.

On May 13, 2004 FG&E discovered an unauthorized excavation by another property owner on the site at Sawyer Passway in which tainted soils related to MGP by-products were exposed and relocated onto property owned by FG&E. FG&E promptly reported this discovery to the DEP and subsequently received a Notice of Responsibility on May 20, 2004. FG&E has properly disposed of the relocated materials and taken other steps in accordance with DEP directives to remedy the situation. The Completion Report for this release was submitted May 9, 2005.

Since 1991, FG&E has recovered the environmental response costs incurred at this former MGP site pursuant to an MDTE approved settlement agreement between the Massachusetts Attorney General and the natural gas utilities of the Commonwealth of Massachusetts (Agreement). The Agreement allows FG&E to amortize and recover from gas customers over succeeding seven-year periods the environmental response costs incurred each year. Environmental response costs are defined to include liabilities related to manufactured gas sites, waste disposal sites or other sites onto which hazardous material may have migrated as a result of the operation or decommissioning of Massachusetts gas manufacturing facilities from 1822 through 1978. In addition, any recovery that FG&E receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between FG&E and its gas customers. The total annual charge for such costs assessed to gas customers cannot exceed five percent of FG&E's total revenue for firm gas sales during the preceding year. Costs in excess of five percent will be deferred for recovery in subsequent years.

Former Electric Generating Station—In 2003, FG&E completed environmental remediation action to abate and remove asbestos-containing and other hazardous materials at a former electric generating station located at Sawyer Passway in Fitchburg, Massachusetts, which FG&E sold in 1983 to a general partnership, Rockware. FG&E received significant coverage from its insurance carrier for this remediation project and the resolution of this matter did not have a material adverse effect on the Company's financial position.

Note 6: Bad Debts

The following table shows the balances and activity in the Company's Allowance for Doubtful Accounts for 2003—2005.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at Beginning of Period	Additions		Accounts Written Off	Balance at End of Period
		(A) Provision	Recoveries		
Year Ended December 31, 2005					
Electric	**$392,824**	**$ 714,917**	**$116,290**	**$ 881,240**	**$342,791**
Gas	**89,602**	**721,171**	**116,366**	**817,108**	**110,031**
Other	**18,297**	**9,602**	**—**	**10,973**	**16,926**
	$500,723	**$1,445,690**	**$232,656**	**$1,709,321**	**$469,748**
Year Ended December 31, 2004					
Electric	$395,432	$ 821,077	$121,974	$ 945,659	$392,824
Gas	132,964	524,905	96,411	664,678	89,602
Other	13,080	10,500	—	5,283	18,297
	$541,476	$1,356,482	$218,385	$1,615,620	$500,723
Year Ended December 31, 2003					
Electric	$271,679	$ 719,761	$ 87,922	$ 683,930	$395,432
Gas	100,300	609,037	67,398	643,771	132,964
Other	61,630	90,000	—	138,550	13,080
	$433,609	$1,418,798	$155,320	$1,466,251	$541,476

(A) The amounts charged to the Provision for Doubtful Accounts include amounts related to the energy commodity portion of accounts receivable which are recovered through rate reconciling mechanisms.

Note 7: Income Taxes

Federal Income Taxes were provided for the following items for the years ended December 31, 2005, 2004 and 2003, respectively:

	2005	2004	2003
Current Federal Tax Provision (000's):			
Operating Income	**$3,671**	$ 438	$(2,898)
Total Current Federal Tax Provision	**3,671**	438	(2,898)
Deferred Federal Tax Provision (000's)			
Accelerated Tax Depreciation	**(668)**	2,805	3,329
Abandoned Properties	**(796)**	(769)	(778)
Accrued Revenue	**1,296**	1,779	2,034
Allowance for Funds Used During Construction	**(8)**	(16)	(23)
Post Retirement Benefits Other Than Pensions	**(395)**	(262)	(217)
Deferred Pensions	**694**	259	55
Regulatory Assets and Liabilities	**—**	(194)	146
Insurance Proceeds	**—**	—	1,172
Contributions in Aid of Construction	**(165)**	(120)	(201)
Net Operating Loss Carryforward	**—**	92	(331)
Alternative Minimum Tax	**—**	(355)	(125)
Other, net	**(180)**	(151)	507
Total Deferred Federal Tax Provision	**(222)**	3,068	5,568
Total Federal Tax Provision	**$3,449**	$3,506	$ 2,670

The components of the Federal and State income tax provisions reflected as operating expenses in the accompanying consolidated statements of earnings for the years ended December 31, 2005, 2004 and 2003 are shown in the table below. In addition to the provisions for state income taxes, the Company recorded provisions of $179,000, $179,000 and $140,000 in 2005, 2004 and 2003, respectively for state Business Enterprise taxes which are included in Local Property and Other Taxes on the consolidated statements of earnings.

Federal and State Tax Provisions (000's)	2005	2004	2003
Federal			
Current	**$3,671**	$ 438	$(2,898)
Deferred	**(222)**	3,068	5,568
Total Federal Tax Provision	**3,449**	3,506	2,670
State			
Current	**844**	602	74
Deferred	**(18)**	98	807
Total State Tax Provision	**826**	700	881
Total Provision for Federal and State Income Taxes	**$4,275**	$4,206	$ 3,551

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

	2005	2004	2003
Statutory Federal Income Tax Rate	**34%**	34%	34%
Income Tax Effects of:			
State Income Taxes, Net	**5**	5	5
Abandoned Property	**(6)**	(6)	(7)
Other, Net	**—**	1	(1)
Effective Income Tax Rate	**33%**	34%	31%

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

Deferred Income Taxes (000's)	2005	2004
Accelerated Depreciation	**$23,937**	$25,681
Deferred Restructuring Charges	**13,204**	11,697
Regulatory Assets and Liabilities	**8,700**	9,164
Employee Benefit Plans	**2,484**	3,395
Contributions in Aid of Construction	**(2,319)**	(2,108)
Retirement Loss	**3,899**	3,407
Abandoned Property	**—**	1,535
Percentage Repair Allowance	**1,669**	1,812
Net Operating Loss Carryforward	**—**	(239)
Alternative Minimum Tax Credit	**—**	(480)
Other	**723**	2,292
Total Deferred Income Tax Liabilities	**$52,297**	$56,156

Note 8: Pension and Postretirement Benefit Plans

The Company provides certain pension and postretirement benefit plans for its retirees and current employees including defined benefit plans, postretirement health and welfare plans, a supplemental executive retirement plan and an employee 401(k) savings plan.

Defined Benefit Pension Plan—The Company sponsors the Unitil Corporation Retirement Plan (the Plan), a defined benefit pension plan covering substantially all its employees. Under the Plan retirement benefits are based upon an employee's level of compensation and length of service. The Company records annual expense and accounts for its defined benefit pension plan in accordance with SFAS No. 87, "Employers' Accounting for Pensions."

The following table represents information on the Plan's Projected Benefit Obligation (PBO), fair value of plan assets and the Plan's funded status. The PBO includes expectations of future employee service and compensation increases.

Change in PBO (000's)	2005	2004
PBO at Beginning of Year	**$ 49,757**	$47,300
Service Cost	**1,458**	1,302
Interest Cost	**3,085**	3,028
Plan Amendments	**110**	—
Benefits Paid	**(2,404)**	(2,280)
Actuarial (Gain) or Loss	**6,580**	407
PBO at End of Year	**$ 58,586**	$49,757

Change in Plan Assets (000's):	2005	2004
Fair Value of Plan Assets at Beginning of Year	**$ 42,304**	$39,337
Actual Return on Plan Assets	**2,135**	3,247
Employer Contributions	**2,500**	2,000
Benefits Paid	**(2,404)**	(2,280)
Fair Value of Plan Assets at End of Year	**$ 44,535**	$42,304

PBO and Funded Status (000's):	2005	2004
Fair Value of Plan Assets	**$ 44,535**	$42,304
PBO	**58,586**	49,757
Funded Status	**(14,051)**	(7,453)
Unrecognized Net (Gain) Loss	**24,431**	17,727
Unrecognized Transition (Asset) Obligation	**—**	—
Unrecognized Prior Service Cost	**719**	716
Net Amount Recognized as Prepaid Pension Asset	**$ 11,099**	$10,990

The following table represents information on the Plan's Accumulated Benefit Obligation (ABO), its funded status, the Company's Additional Minimum Liability (AML) and associated Regulatory Assets. The ABO is the Plan's obligation for employee service provided through December 31, 2005. An unfunded ABO represents an amount to be recognized as an additional minimum liability.

ABO and Funded Status (000's):	2005	2004
ABO	**$ 49,796**	$ 42,710
Fair Value of Plan Assets	**(44,535)**	(42,304)
Unfunded ABO/AML (Recognized as Regulatory Asset)	**$ 5,261**	$ 406

In December 2003 and 2002, UES and FG&E filed requests with their respective state regulatory commissions for approval of accounting orders to mitigate certain accounting requirements related to pension plan assets which had been triggered by the substantial decline in the capital markets. UES and FG&E were granted approval of this regulatory accounting treatment in January 2003 and 2004. As a result of these approvals, the Company has recorded as a Regulatory Asset the amount of the Plan's unfunded Accumulated Benefit Obligation (ABO) plus one dollar. These approvals allow UES and FG&E to treat their Additional Minimum Liability (AML) as Regulatory Assets under FASB Statement No. 71, "Accounting for the Effects of Certain Types of Regulation", (SFAS No. 71) and avoid the reduction in equity through other comprehensive income that would otherwise be required by SFAS No. 87.

On October 27, 2004 the MDTE approved FG&E's request for a reconciliation rate adjustment mechanism, the Pension / PBOP Adjustment Factor (PAF), to recover the costs associated with the Company's pension, and postretirement benefits other than pensions (PBOP), costs on an annually reconciling basis. As a result of this order, FG&E records a regulatory asset to recognize the deferral for the difference between the level of pension and PBOP expenses that are currently included in its base rates and the amounts that are required to be recorded in accordance with SFAS No. 87 and FASB Statement No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions", (SFAS No. 106) and amortizes increases and /or decreases in that deferral balance into the PAF for recovery over a three year period. The PAF provides for an annual filing and rate adjustment with the MDTE and requires that carrying charges on prepaid or (accrued) pension and PBOP assets and liabilities be collected from, or refunded to, utility customers. In 2005, FG&E received approval of its first annual filing and rate adjustment.

The Company initiated similar discussions for a reconciling rate mechanism for the pension costs of UES with the NHPUC. On December 11, 2004, UES filed with the NHPUC a Petition for an Accounting Order to defer certain pension costs above those included in its base rates for 2004 until its next base rate case (also see Note 5 above). In that petition the Company stated its intention to explore with the NHPUC and other interested parties, a reconciling rate mechanism for pension costs incurred by UES to achieve the same benefits for UES and its customers that have been achieved by implementing the PAF for FG&E. On April 7, 2005, the NHPUC issued an order denying UES' Petition for an accounting order. In its analysis denying UES' request, the NHPUC indicated that pension expense is an ordinary category of expense included in the revenue requirement for a utility under traditional cost of service ratemaking principles and that the size and impact of increased pension expense on UES is not clear and that a full examination of UES' income and expenses will be undertaken when UES files a rate case.

As a result of this order, on November 4, 2005, UES filed its request for a base rate increase of $4.65 million to recover pension costs and other increases in costs since its last rate case. The filing includes a request to recover pension and PBOP costs through an annual reconciling rate mechanism, and a step adjustment for certain future rate base additions. The filing also requested that temporary rates be established at current rate levels effective December 4, 2005. On February 3, 2006, the NHPUC issued an order approving this request. Any rate change ultimately awarded by the NHPUC will be retroactive to January 1, 2006. The overall rate filing is currently under review, with an NHPUC order anticipated before November 2006. As of December 31, 2005, UES has recorded deferred pension costs of $1.0 million. The NHPUC has historically permitted the recovery of prudently incurred expenditures related to pension benefits for UES' employees. It is anticipated that the final determination of the amount and method of recovering UES' pension costs will be decided in the base rate case. The Company cannot determine the ultimate outcome of this proceeding.

The following tables show the components of net periodic pension cost (NPPC), as well as key actuarial assumptions used in determining the various pension plan values:

Components of NPPC (000's)	**2005**	**2004**	**2003**
Service Cost	**$ 1,458**	$ 1,302	$ 1,151
Interest Cost	**3,085**	3,028	2,940
Expected Return on Plan Assets	**(3,404)**	(3,393)	(3,573)
Amortization of Prior Service Cost	**107**	101	102
Amortization of Transition (Asset) Obligation	**—**	—	—
Amortization of Net (Gain) Loss	**1,146**	944	487
Subtotal NPPC	**2,392**	1,982	1,107
Amounts Capitalized and Deferred	**(1,751)**	(1,926)	(758)
NPPC Recognized	**$ 641**	$ 56	$ 349

Included in the amounts above for Amounts Capitalized and Deferred are $814,000 and $1,161,000 recorded as Regulatory Assets on the Company's Balance Sheet for 2005 and 2004, respectively. The remaining amounts represent amounts capitalized to construction overheads.

Key Assumptions (Weighted Average)	2005	2004	2003
Used to Determine Benefit Obligations at December 31:			
Discount Rate	**5.50%**	6.50%	6.50%
Rate of Compensation Increase	**3.50%**	3.50%	3.50%
Used to Determine NPPC for years ended December 31:			
Discount Rate	**6.00%(1)**	6.50%	7.00%
Expected Long-Term Rate of Return on Plan Assets	**8.50%**	8.75%	8.75%
Rate of Compensation Increase	**3.50%**	3.50%	4.00%

(1) In May 2005, the Company reached agreements with its union labor bargaining units for new five-year contracts, effective June 1, 2005, which resulted in amendments to the Plan. Effective for the period of June 1, 2005 through December 31, 2005, the Company lowered the assumed discount rate to 6.00%. This change is reflected in the net periodic pension cost amounts shown in the table above.

The following table represents the Plan's weighted-average investment asset allocations at December 31:

	Target Allocation	Actual Allocation at December 31		
	2006	2005	2004	2003
Equity Securities	58-62%	**60%**	61%	61%
Debt Securities	38-42%	**40%**	39%	39%
Real Estate	0-2%	**0%**	0%	0%
Other	0-2%	**0%**	0%	0%
Total		**100%**	100%	100%

The desired investment objective is a long-term rate of return on assets that is approximately 6% greater than the assumed rate of inflation as measured by the Consumer Price Index. The target rate of return for the Plan has been based upon an analysis of historical returns supplemented with an economic and structural review for each asset class.

The following tables represent Plan contributions and benefit payments (000's):

	2005	2004	2003
Employer Contributions	**$2,500**	$2,000	$1,200
Participant Contributions	**$ —**	$ —	$ —
Benefit Payments	**$2,404**	$2,280	$2,270

Estimated Future Benefit Payments					
2006	2007	2008	2009	2010	2011-2015
$2,504	$2,614	$2,772	$2,841	$3,049	$17,362

Postretirement Benefits—The Company also sponsors the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan) to provide health care and life insurance benefits to active employees. Prior to October 1, 2003, the Company funded certain postretirement benefits through the Unitil Retiree Trust (URT). The URT was an organization of retirees, incorporated in 1993 to provide social, health and welfare benefits to its members, who are eligible former employees of the Company. Effective January 1, 2004, the PBOP Plan was amended to provide certain healthcare and life insurance benefits, which were previously provided by the URT. The

Company has established Voluntary Employee Benefit Trusts (VEBT), into which it funds contributions to the PBOP Plan. Included on the Company's Consolidated Balance Sheets at December 31, 2005 and December 31, 2004 are accrued liabilities of $4.9 million and $3.2 million, respectively, related to the PBOP Plan.

As discussed above, on October 27, 2004 the MDTE approved FG&E's request for a reconciliation rate adjustment mechanism, the PAF, to recover the costs associated with the Company's pension and PBOP costs on an annually reconciling basis.

On March 15, 2004 UES filed a petition with the NHPUC for recovery of PBOP costs. UES proposed an increase to its distribution base rates of $1.0 million to provide for the recovery of these costs, effective May 1, 2004. The NHPUC approved this filing, effective May 1, 2004.

As discussed above, on November 4, 2005, UES filed a request for a base rate increase of $4.65 million. The filing includes a request to recover pension and PBOP costs through an annual reconciling rate mechanism, and a step adjustment for certain future rate base additions. The filing also requested that temporary rates be established at current rate levels effective December 4, 2005. On February 3, 2006, the NHPUC issued an order approving this request. Any rate change ultimately awarded by the NHPUC will be retroactive to January 1, 2006. The overall rate filing is currently under review, with an NHPUC order anticipated before November 2006. It is anticipated that the final determination of the amount and method of recovering UES' pension and PBOP costs will be decided in the base rate case. The Company cannot determine the ultimate outcome of this proceeding.

The following table represents information on the PBOP Plan's fair value of plan assets and the PBOP Plan's funded status. The PBO includes expectations of future employee service and compensation increases.

Change in PBO (000's)	2005	2004
PBO at Beginning of Year	**$ 27,917**	$ 31,991
Service Cost	**993**	899
Interest Cost	**1,795**	1,827
Plan Amendments	**(1,797)**	—
Benefits Paid	**(1,334)**	(1,257)
Actuarial (Gain) or Loss	**9,954**	(5,543)
PBO at End of Year	**$ 37,528**	$ 27,917
Change in Plan Assets (000's):		
Fair Value of Plan Assets at Beginning of Year	**$ 1,101**	$ —
Actual Return on Plan Assets	**37**	3
Employer Contributions	**2,500**	2,355
Benefits Paid	**(1,334)**	(1,257)
Fair Value of Plan Assets at End of Year	**$ 2,304**	$ 1,101
Obligation and Funded Status (000's):		
Fair Value of Plan Assets	**$ 2,304**	$ 1,101
PBO	**37,528**	27,917
Funded Status	**(35,224)**	(26,816)
Unrecognized Net (Gain) Loss	**6,045**	(3,913)
Unrecognized Transition (Asset) Obligation	**150**	171
Unrecognized Prior Service Cost	**24,144**	27,342
Net Amount Recognized	**$ (4,885)**	$ (3,216)

The components of net periodic postretirement benefit cost (NPPBC) are as follows:

Components of NPPBC (000's)	2005	2004	2003
Service Cost	**$ 993**	$ 899	$ 246
Interest Cost	**1,795**	1,827	558
Expected Return on Plan Assets	**(41)**	—	—
Amortization of Prior Service Cost	**1,401**	1,458	365
Amortization of Transition (Asset) Obligation	**21**	21	21
Amortization of Net (Gain) Loss	**—**	—	2
Subtotal NPPC	**4,169**	4,205	1,192
Amounts Capitalized and Deferred	**(2,051)**	(2,498)	(942)
NPPBC Recognized	**$ 2,118**	$ 1,707	$ 250

Included in the amounts above for Amounts Capitalized and Deferred are $408,000 and $718,000 recorded as Regulatory Assets on the Company's Balance Sheet for 2005 and 2004, respectively. The remaining amounts represent amounts capitalized to construction overheads.

In addition to the amounts shown above, the Company also recorded expense for payments to URT of $1.3 million in 2003.

The following table includes assumptions used in determining the various PBOP values.

Key Assumptions (Weighted Average)	2005	2004	2003
Used to Determine Benefit Obligations at December 31:			
Discount Rate	**5.50%**	6.50%	6.50%
Rate of Compensation Increase	**N/A**	N/A	N/A
Health Care Cost Trend Rate Assumed for Next Year	**9.00%**	8.00%	9.00%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%	4.00%
Year That the Health Care Cost Trend Rate Reaches the Ultimate Trend Rate	2016	2013	2013
Used to Determine NPPBC for years ended December 31:			
Discount Rate	**6.00%(1)**	6.50%	7.00%
Expected Long-Term Rate of Return on Plan Assets	**8.50%/5.50%(2)**	N/A	N/A
Rate of Compensation Increase	**N/A**	N/A	N/A
Health Care Cost Trend Rate Assumed for Next Year	**8.00%**	9.00%	10.00%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%	4.00%
Year That the Health Care Cost Trend Rate Reaches the Ultimate Trend Rate	2013	2013	2013

(1) In May 2005, the Company reached agreements with its union labor bargaining units for new five-year contracts, effective June 1, 2005, which resulted in amendments to the Plan. Effective for the period of June 1, 2005 through December 31, 2005, the Company lowered the assumed discount rate to 6.00%. This change is reflected in the net periodic postretirement benefit cost amounts shown in the table above.

(2) Funding of the PBOP Plan is made into two VEBT's; one is a union VEBT and the other is a non-union VEBT. The expected long-term rate of return on plan assets for the union VEBT is 8.50%. The non-union VEBT is subject to income taxes and therefore the expected long-term rate of return on plan assets is 5.50%, reflecting the effect of taxes.

Assumed health care cost trend rates have a significant effect on the amounts reported. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

1-Percentage Point Increase (000's)	2005	2004	2003
Effect on Total of Service and Interest Cost	**$ 526**	$ 564	$ 150
Effect on Postretirement Benefit Obligation	**$ 5,917**	$ 4,079	$ 4,968
1-Percentage Point Decrease (000's)			
Effect on Total of Service and Interest Cost	**$ (413)**	$ (438)	$ (118)
Effect on Postretirement Benefit Obligation	**$(4,737)**	$(3,290)	$(4,007)

The following tables represent PBOP contributions and benefit payments made in 2003 – 2005 and estimated future benefit payments. The employer contributions and benefit payments listed below reflect the Company's assumptions of the URT obligations, effective October 1, 2003. In 2003, the Company paid URT $1.3 million.

(000's)	Expected 2006	2005	2004	2003
Employer Contributions	**$2,500**	**$2,500**	$2,355	$331
Participant Contributions	**$ —**	**$ —**	$ —	$ —

(000's)	2005	2004	2003
Benefit Payments	**$1,334**	$1,257	$331

Estimated Future Benefit Payments					
2006	2007	2008	2009	2010	2011-2015
$1,319	$1,414	$1,520	$1,614	$1,793	$10,722

Supplemental Executive Retirement Plan—The Company also sponsors an unfunded retirement plan, the Unitil Corporation Supplemental Executive Retirement Plan (the SERP), with participation limited to executives selected by the Board of Directors. The cost associated with the SERP amounted to approximately $190,000, $194,000 and $140,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

The following table represents information on the SERP's Projected Benefit Obligation (PBO), fair value of plan assets and the plan's funded status. The PBO includes expectations of future employee service and compensation increases.

Change in PBO (000's)	**2005**	**2004**
PBO Obligation at Beginning of Year	**$ 1,218**	$ 1,193
Service Cost	**90**	89
Interest Cost	**80**	75
Plan Amendments	**—**	—
Benefits Paid	**(72)**	(72)
Actuarial (Gain) or Loss	**594**	(67)
PBO at End of Year	**$ 1,910**	$ 1,218

Change in Plan Assets (000's):		
Fair Value of Plan Assets at Beginning of Year	**$ —**	$ —
Actual Return on Plan Assets	**—**	—
Employer Contributions	**72**	72
Benefits Paid	**(72)**	(72)
Fair Value of Plan Assets at End of Year	**$ —**	$ —

Obligation and Funded Status (000's):		
Fair Value of Plan Assets	**$ —**	$ —
PBO	**1,910**	1,218
Funded Status	**(1,910)**	(1,218)
Unrecognized Net (Gain) Loss	**730**	141
Unrecognized Transition (Asset) Obligation	**17**	34
Unrecognized Prior Service Cost	**20**	18
Net Amount Recognized	**$(1,143)**	$(1,025)

The components of net periodic SERP cost are as follows:

Components of Net Periodic SERP Cost (000's)	**2005**	**2004**	**2003**
Service Cost	**$ 90**	$ 89	$ 59
Interest Cost	**80**	75	69
Expected Return on Plan Assets	**—**	—	—
Amortization of Prior Service Cost	**(2)**	3	(5)
Amortization of Transition Obligation	**17**	17	17
Amortization of Net Loss	**5**	10	—
Net Periodic SERP Cost	**$190**	$194	$140

The following table includes information regarding Unitil's SERP costs as well as key actuarial assumptions:

Additional Information (000's):	**2005**	**2004**	**2003**
Accumulated Benefit Obligation	**$ 800**	$ 673	$ 675
Weighted-Average Assumptions			
Used to Determine Benefit Obligations at December 31:			
Discount Rate	**5.50%**	6.50%	6.50%
Rate of Compensation Increase	**3.50%**	3.50%	3.50%
Used to Determine Net Periodic SERP Cost for years ended December 31:			
Discount Rate	**6.50%**	6.50%	7.00%
Expected Long-Term Rate of Return on Plan Assets	**N/A**	N/A	N/A
Rate of Compensation Increase	**3.50%**	3.50%	4.00%

The following tables represent SERP contributions and benefit payments made in 2003 – 2005 and estimated future benefit payments (000's):

	2005	2004	2003
Employer Contributions	**$ 72**	$ 72	$ 64
Participant Contributions	**$ —**	$ —	$ —

	2005	2004	2003
Benefit Payments	**$ 72**	$ 72	$ 64

Estimated Future Benefit Payments					
2006	2007	2008	2009	2010	2011-2015
$69	$67	$65	$62	$60	$981

Employee 401(k) Tax Deferred Savings Plan—The Company sponsors the Unitil Corporation Tax Deferred Savings and Investment Plan (the 401(k)) under Section 401(k) of the Internal Revenue Code, covering substantially all of the Company's employees. Participants may elect to defer current compensation by contributing to the plan. The Company matches contributions, with a maximum matching contribution of 3% of current compensation. Employees may direct, at their sole discretion, the investment of their savings plan balances (both the employer and employee portions) into a variety of investment options, including a Company Common Stock fund. Participants are 100% vested in contributions made on their behalf, once they have completed three years of service. The Company's share of contributions to the plan was $503,000, $499,000 and $487,000 for the years ended December 31, 2005, 2004, and 2003, respectively.

Note 9: Earnings Per Share

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

(000's except share and per share data)	2005	2004	2003
Earnings Available to Common Shareholders	**$ 8,397**	$ 8,011	$ 7,722
Weighted Average Common Shares Outstanding—Basic	**5,551,420**	5,509,321	4,877,933
Plus: Diluted Effect of Incremental Shares—from Assumed Conversion	**16,298**	15,514	18,396
Weighted Average Common Shares Outstanding—Diluted	**5,567,718**	5,524,835	4,896,329
Earnings per Share—Diluted	**$ 1.51**	$ 1.45	$ 1.58

Weighted average options to purchase 72,500, 35,000 and 72,500 shares of Common Stock were outstanding during 2005, 2004 and 2003, respectively, but were not included in the computation of Weighted Average Common Shares Outstanding for purposes of computing diluted earnings per share, because the effect would have been antidilutive.

Note 10: Segment Information

Unitil reported four segments: utility electric operations, utility gas operations, other, and non-regulated. Unitil is engaged principally in the retail sale and distribution of electricity in New Hampshire and both electricity and natural gas service in Massachusetts through its retail distribution subsidiaries UES and FG&E. Unitil Resources is the Company's wholly-owned non-utility unregulated subsidiary that provides consulting and management related services. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly-owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to large commercial and industrial customers in the northeastern United States. Unitil Realty and Unitil Service provide centralized facilities, operations and administrative services to support the affiliated Unitil companies.

Unitil Realty, Unitil Service and the holding company are included in the "Other" column of the table below. Unitil Service provides centralized management and administrative services, including information systems management and financial record keeping. Unitil Realty owns certain real estate, principally the Company's corporate headquarters. Unitil Resources and Usource are included in the Non-Regulated column below. The earnings of the holding company are principally derived from income earned on short-term investments and real property owned for Unitil and its subsidiaries' use.

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

The following table provides significant segment financial data for the years ended December 31, 2005, 2004 and 2003. Included in Non-regulated Segment Profit (Loss) for the year ended December 31, 2005 are a segment profit of $52,000 from Usource and a segment loss of ($59,000) from Unitil Resources, Inc.

Year Ended December 31, 2005 (000's)	Electric	Gas	Other	Non-Regulated	Total
Revenues	**$197,339**	**$32,767**	**$ —**	**$2,039**	**$232,145**
Segment Profit (Loss)	**6,957**	**911**	**536**	**(7)**	**8,397**
Identifiable Segment Assets	**328,208**	**98,184**	**22,516**	**1,173**	**450,081**
Capital Expenditures	**17,211**	**6,936**	**220**	**—**	**24,367**
Year Ended December 31, 2004 (000's)					
Revenues	$183,889	$28,685	$ —	$1,563	$214,137
Segment Profit (Loss)	6,649	1,202	300	(140)	8,011
Identifiable Segment Assets	340,800	94,239	21,069	902	457,010
Capital Expenditures	17,566	5,111	245	—	22,922
Year Ended December 31, 2003 (000's)					
Revenues	$190,864	$28,612	$ 30	$1,148	$220,654
Segment Profit (Loss)	6,500	1,600	254	(632)	7,722
Identifiable Segment Assets	371,324	84,441	26,335	1,777	483,877
Capital Expenditures	17,427	4,083	410	19	21,939

Note 11: Quarterly Financial Information (unaudited; 000's except per share data)

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

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	2005	2004	2005	2004	2005	2004	2005	2004
Total Operating Revenues	**$60,000**	$59,493	**$51,439**	$48,606	**$56,654**	$50,049	**$64,052**	$55,989
Operating Income	**$ 4,504**	$ 4,626	**$ 3,311**	$ 3,303	**$ 3,240**	$ 2,955	**$ 4,486**	$ 4,309
Net Income Applicable to Common	**$ 2,671**	$ 2,747	**$ 1,497**	$ 1,546	**$ 1,562**	$ 1,207	**$ 2,667**	$ 2,512
	Per Share Data:							
Earnings Per Common Share	**$ 0.48**	$ 0.50	**$ 0.27**	$ 0.28	**$ 0.28**	$ 0.22	**$ 0.48**	$ 0.45
Dividends Paid Per Common Share	**$ 0.345**	$ 0.345	**$ 0.345**	$ 0.345	**$ 0.345**	$ 0.345	**$ 0.345**	$ 0.345

Note 12: Subsequent Event

Approval of Temporary Base Distribution Rates—Unitil Energy Systems, Inc.

As discussed above, on November 4, 2005, UES filed a request for a base rate increase of $4.65 million. The filing includes a request to recover pension and PBOP costs through an annual reconciling rate mechanism, and a step adjustment for certain future rate base additions. The filing also requested that temporary rates be established at current rate levels effective December 4, 2005. On February 3, 2006, the NHPUC issued an order approving this request. Any rate change ultimately awarded by the NHPUC will be retroactive to January 1, 2006. The overall rate filing is currently under review, with an NHPUC order anticipated before November 2006. It is anticipated that the final determination of the amount and method of recovering UES' pension and PBOP costs will be decided in the base rate case. The Company cannot determine the ultimate outcome of this proceeding.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). In addition, management is required to report their assessment, including their evaluation criteria, on the design and operating effectiveness of the Company's internal control over financial reporting in Form 10-K.

The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. The Company's internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes policies and procedures which provide reasonable assurances that transactions are properly initiated, authorized, recorded, reported and disclosed, and provide reasonable assurances regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During 2005, management conducted an assessment of the Company's internal control over financial reporting reflected in the financial statements, based upon criteria established in the "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment, which included a comprehensive review of the design and operating effectiveness of the Company's internal control over financial reporting, management believes the Company's internal control over financial reporting is designed and operating effectively as of December 31, 2005.

Vitale, Caturano and Company, an independent registered public accounting firm, has audited management's assessment of the effectiveness of the internal control over financial reporting as stated in their report which is included herein.

Item 9B. Other Information

None

PART III

Item 10. Directors and Executive Officers of the Registrant

Information required by this Item is set forth in Part I, Item 1 of this Form 10-K. Information regarding the Company's Code of Ethics is set forth in the "Corporate Governance and Policies of the Board" section of the 2005 Proxy Statement as filed with the Securities and Exchange Commission on February 22, 2006.

Item 11. Executive Compensation

Information required by this Item is set forth in the "Report of the Compensation Committee" section of the 2005 Proxy Statement as filed with the Securities and Exchange Commission on February 22, 2006.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item is set forth in the "Information About Directors" section of the 2005 Proxy Statement as filed with the Securities and Exchange Commission on February 22, 2006 as well as the Equity Compensation Plan Benefit Information table in Part II, Item 5 of this Form 10-K.

Item 13. Certain Relationships and Related Transactions

None

Item 14. Principal Accountant Fees and Services

Information required by this Item is set forth in the "Principal Accountant Fees and Services" section of the 2005 Proxy Statement as filed with the Securities and Exchange Commission on February 22, 2006.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) and (2) – **LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES**

The following financial statements are included herein under Part II, Item 8, Financial Statements and Supplementary Data:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets—December 31, 2005 and 2004
- Consolidated Statements of Earnings for the years ended December 31, 2005, 2004, and 2003
- Consolidated Statements of Capitalization—December 31, 2005 and 2004
- Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004, and 2003
- Consolidated Statements of Changes in Common Stock Equity for the years ended December 31, 2005, 2004, and 2003
- Notes to Consolidated Financial Statements

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, are not applicable, or information required is included in the financial statements or notes thereto and, therefore, have been omitted.

(3) – **LIST OF EXHIBITS**

Exhibit Number	Description of Exhibit	Reference*
3.1	Articles of Incorporation of the Company.	Exhibit 3.1 to Form S-14 Registration Statement 2-93769
3.2	Articles of Amendment to the Articles of Incorporation Filed on March 4, 1992 and April 30, 1992.	Exhibit 3.2 to Form 10-K for 1991
3.3	By-laws of the Company.	Exhibit 4 to Form S-8 Registration Statement 333-73327
3.4	Articles of Exchange of Concord Electric Company (CECo), Exeter & Hampton Electric Company (E&H) and the Company.	Exhibit 3.3 to 10-K for 1984
3.5	Articles of Exchange of CECo, E&H, and the Company—Stipulation of the Parties Relative to Recordation and Effective Date.	Exhibit 3.4 to Form 10-K for 1984
3.6	The Agreement and Plan of Merger dated March 1, 1989 among the Company, Fitchburg Gas and Electric Light Company (FG&E) and UMC Electric Co., Inc. (UMC).	Exhibit 25(b) to Form 8-K dated March 1, 1989
3.7	Amendment No. 1 to The Agreement and Plan of Merger dated March 1, 1989 among the Company, FG&E and UMC.	Exhibit 28(b) to Form 8-K dated December 14, 1989
4.1	Twelfth Supplemental Indenture of Unitil Energy Systems, Inc., successor to Concord Electric Company, dated as of December 2, 2002, amending and restating the Concord Electric Company Indenture of Mortgage and Deed of Trust dated as of July 15, 1958.	Exhibit 4.1 to Form 10-K for 2002

Exhibit Number	Description of Exhibit	Reference*
4.2	FG&E Purchase Agreement dated March 20, 1992 for the 8.55% Senior Notes due March 31, 2004.	Exhibit 4.18 to Form 10-K for 1993
4.3	FG&E Note Agreement dated November 30, 1993 for the 6.75% Notes due November 23, 2023.	Exhibit 4.18 to Form 10-K for 1993
4.4	FG&E Note Agreement dated January 26, 1999 for the 7.37% Notes due January 15, 2028.	Exhibit 4.25 to Form 10-K for 1999
4.5	FG&E Note Agreement dated June 1, 2001 for the 7.98% Notes due June 1, 2031.	Exhibit 4.6 to Form 10-Q for June 30, 2001
4.6	Unitil Realty Corp. Note Purchase Agreement dated July 1, 1997 for the 8.00% Senior Secured Notes due August 1, 2017.	Exhibit 4.22 to Form 10-K for 1997
4.7	FG&E Note Agreement dated October 15, 2003 for the 6.79% Notes due October 15, 2025.	Exhibit 4.7 to Form 10-K for 2003
4.8	FG&E Note Agreement dated December 21, 2005 for the 5.90% Notes due December 15, 2030.	**
10.1	Unitil System Agreement dated June 19, 1986 providing that Unitil Power will supply wholesale requirements electric service to CECo and E&H.	Exhibit 10.9 to Form 10-K for 1986
10.2	Supplement No. 1 to Unitil System Agreement providing that Unitil Power will supply wholesale requirements electric service to CECo and E&H.	Exhibit 10.8 to Form 10-K for 1987
10.3	Transmission Agreement between Unitil Power Corp. and Public Service Company of New Hampshire, effective November 11, 1992.	Exhibit 10.6 to Form 10-K for 1993
10.4	Form of Severance Agreement between the Company and the persons listed at the end of such Agreement.	Exhibit 10.1 to Form 10-Q for September 30, 2003
10.5	Form of Severance Agreement between the Company and the persons listed at the end of such Agreement.	Exhibit 10.2 to Form 10-Q for September 30, 2003
10.6	Key Employee Stock Option Plan effective January 17, 1989.	Exhibit 10.56 to Form 8 dated April 12, 1989
10.7	Unitil Corporation Key Employee Stock Option Plan Award Agreement.	Exhibit 10.63 to Form 10-K for 1989
10.8	Unitil Corporation Management Performance Compensation Plan.	Exhibit 10.94 to Form 10-K/A for 1993
10.9	Unitil Corporation Supplemental Executive Retirement Plan effective as of January 1, 1987.	Exhibit 10.95 to Form 10-K/A for 1993
10.10	Unitil Corporation 1998 Stock Option Plan.	Exhibit 10.12 to Form 10-K for 1998
10.11	Unitil Corporation Management Incentive Plan.	Exhibit 10.13 to Form 10-K for 1998
10.12	Entitlement Sale and Administrative Service Agreement with Select Energy.	Exhibit 10.14 to Form 10-K for 1999
10.13	Purchase and Sale Agreement For New Haven Harbor.	Exhibit 10.15 to Form 10-K for 1999
10.14	Labor Agreement effective June 1, 2000 between CECo and The International Brotherhood of Electrical Workers, Local Union No. 1837.	Exhibit 10.13 to Form 10-K for 2000

Exhibit Number	Description of Exhibit	Reference*
10.15	Labor Agreement effective June 1, 2000 between E&H and The International Brotherhood of Electrical Workers, Local Union No. 1837.	Exhibit 10.14 to Form 10-K for 2000
10.16	Labor Agreement effective June 1, 2000 between FG&E and The Utility Workers of America, AFL-CIO., Local Union No. B340, The Brotherhood of Utility Workers Council.	Exhibit 10.15 to Form 10-K for 2000
10.17	Unitil Corporation 2003 Restricted Stock Plan.	Exhibit 10.16 to Form 10-K for 2002
10.18	Portfolio Sale and Assignment and Transition Service and Default Service Supply Agreement By and Among Unitil Power Corp., Unitil Energy Systems, Inc. and Mirant Americas Energy Marketing, LP.	Exhibit 10.17 to Form 10-K for 2002
10.19	Unitil Corporation Tax Deferred Savings and Investment Plan—Trust Agreement	Exhibit 10.1 to Form 10-Q for September 30, 2004
11.1	Statement Re: Computation in Support of Earnings per Share For the Company.	Filed herewith
12.1	Statement Re: Computation in Support of Ratio of Earnings to Fixed Charges for the Company.	Filed herewith
21.1	Statement Re: Subsidiaries of Registrant.	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm.	Filed herewith
23.2	Consent of Independent Registered Public Accounting Firm.	Filed herewith
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.3	Certification of Chief Accounting Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

* The exhibits referred to in this column by specific designations and dates have heretofore been filed with the Securities and Exchange Commission under such designations and are hereby incorporated by reference.

** Copies of this debt instrument will be furnished to the Securities and Exchange Commission upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITIL CORPORATION

Date February 22, 2006

By /s/ ROBERT G. SCHOENBERGER

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

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ ROBERT G. SCHOENBERGER **Robert G. Schoenberger**	Principal Executive Officer; Director	February 22, 2006
/s/ MARK H. COLLIN **Mark H. Collin**	Principal Financial Officer	February 22, 2006
/s/ LAURENCE M. BROCK **Laurence M. Brock**	Principal Accounting Officer	February 22, 2006
/s/ MICHAEL J. DALTON **Michael J. Dalton**	Director	February 22, 2006
/s/ ALBERT H. ELFNER, III **Albert H. Elfner, III**	Director	February 22, 2006
/s/ ROSS B. GEORGE **Ross B. George**	Director	February 22, 2006
/s/ M. BRIAN O'SHAUGHNESSY **M. Brian O'Shaughnessy**	Director	February 22, 2006
/s/ CHARLES H. TENNEY, III **Charles H. Tenney, III**	Director	February 22, 2006
/s/ DR. SARAH P. VOLL **Dr. Sarah P. Voll**	Director	February 22, 2006
/s/ EBEN S. MOULTON **Eben S. Moulton**	Director	February 22, 2006
/s/ DAVID P. BROWNELL **David P. Brownell**	Director	February 22, 2006
/s/ EDWARD F. GODFREY **Edward F. Godfrey**	Director	February 22, 2006
/s/ MICHAEL B. GREEN **Michael B. Green**	Director	February 22, 2006
/s/ DR. ROBERT V. ANTONUCCI **Dr. Robert V. Antonucci**	Director	February 22, 2006

Exhibit 11.1

UNITIL CORPORATION

COMPUTATION IN SUPPORT OF EARNINGS PER SHARE

	Year Ended December 31,		
	2005	2004	2003
EARNINGS PER SHARE (000's, except per share data)			
Net Income	**$8,553**	$8,226	$7,958
Less: Dividend Requirements on Preferred Stock	**156**	215	236
Net Income Applicable to Common Stock	**$8,397**	$8,011	$7,722
Average Number of Common Shares Outstanding - Basic	**5,551**	5,509	4,878
Dilutive Effect of Stock Options* and Restricted Stock	**17**	16	18
Average Number of Common Shares Outstanding - Diluted	**5,568**	5,525	4,896
Earnings Per Share - Basic	**$ 1.51**	$ 1.45	$ 1.58
Earnings Per Share - Diluted	**$ 1.51**	$ 1.45	$ 1.58

* Assumes all options were converted to common shares per SFAS 128.

Exhibit 12.1

UNITIL CORPORATION

COMPUTATION IN SUPPORT OF RATIO OF EARNINGS TO FIXED CHARGES

(000's, except ratios)	Year Ended December 31,				
	2005	2004	2003	2002	2001
Earnings:					
Net Income before Extraordinary Item	**$ 8,553**	$ 8,226	$ 7,958	$ 6,088	$ 5,027
Extraordinary Item, net	**—**	—	—	—	(3,937)
Net Income, per Consolidated Statement of Earnings	**8,553**	8,226	7,958	6,088	1,090
Federal and State Income Taxes included in :					
Operations	**4,275**	4,206	3,551	2,490	3,421
Investment Write-down	**—**	—	—	—	1,236
Extraordinary Item	**—**	—	—	—	1,388
Interest on Long-Term Debt	**8,319**	8,394	8,088	8,254	7,637
Amortization of Debt Discount Expense	**104**	98	82	81	72
Other Interest	**1,046**	629	1,070	1,038	1,895
Total	**$22,297**	$21,553	$20,749	$17,951	$16,739
Fixed Charges:					
Interest of Long-Term Debt	**$ 8,319**	$ 8,394	$ 8,088	$ 8,254	$ 7,637
Amortization of Debt Discount Expense	**104**	98	82	81	72
Other Interest	**1,046**	629	1,070	1,038	1,895
Pre-tax Preferred Stock Dividend Requirements	**234**	325	391	419	417
Total	**$ 9,703**	$ 9,446	$ 9,631	$ 9,792	$10,021
Ratio of Earnings to Fixed Charges	**2.30**	2.28	2.15	1.83	1.67

Exhibit 21.1

Subsidiaries of Registrant

The Company or the registrant has six wholly-owned subsidiaries, five of which are corporations organized under the laws of the State of New Hampshire: Unitil Energy Systems, Inc., Unitil Power Corp., Unitil Realty Corp., Unitil Resources, Inc. and Unitil Service Corp. The sixth, Fitchburg Gas and Electric Light Company, is organized under the laws of the State of Massachusetts. Usource, Inc., which is a corporation organized under the laws of the State of Delaware, is a wholly-owned subsidiary of Unitil Resources, Inc. Usource, Inc. is the sole member of Usource L.L.C., which is a corporation organized under the laws of the State of Delaware.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference of our report dated February 3, 2006, accompanying the December 31, 2005 consolidated financial statements included in the Annual Report of Unitil Corporation and subsidiaries on Form 10-K for the year ended December 31, 2005 in the Registration Statements of Unitil Corporation and subsidiaries on Form S-8 (File No. 333-114978 effective April 29, 2004), Form S-3 (File No. 333-42264 effective July 26, 2000) and on Form S-8 (File No. 333-42266 effective July 26, 2000).

/s/ Vitale, Caturano & Company Ltd.

Boston, Massachusetts
February 21, 2006

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated February 17, 2005, accompanying the December 31, 2004 and 2003 consolidated financial statements included in the Annual Report of Unitil Corporation and subsidiaries on Form 10-K for the year ended December 31, 2004. We hereby consent to the incorporation by reference of said report in the Registration Statements of Unitil Corporation and subsidiaries on Form S-8 (File No. 333-114978 effective April 29, 2004), Form S-3 (File No. 333-42264 effective July 26, 2000) and on Form S-8 (File No. 333-42266 effective July 26, 2000.)

/s/ GRANT THORNTON, LLP

Boston, Massachusetts
February 21, 2006

Exhibit 31.1

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert G. Schoenberger, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2006

/s/ Robert G. Schoenberger

Robert G. Schoenberger
Chief Executive Officer and President

Exhibit 31.2

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark H. Collin, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2006

/s/ Mark H. Collin

Mark H. Collin
Chief Financial Officer

Exhibit 31.3

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Laurence M. Brock, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2006

/s/ Laurence M. Brock

Laurence M. Brock
Chief Accounting Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Unitil Corporation (the "Company") on Form 10-K for the year ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned Robert G. Schoenberger, Chief Executive Officer and President, Mark H. Collin, Chief Financial Officer and Laurence M. Brock, Chief Accounting Officer, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Signature	Capacity	Date
/s/ Robert G. Schoenberger Robert G. Schoenberger	Chief Executive Officer and President	February 22, 2006
/s/ Mark H. Collin Mark H. Collin	Chief Financial Officer	February 22 , 2006
/s/ Laurence M. Brock Laurence M. Brock	Chief Accounting Officer	February 22, 2006

Shareholder Information

2006 Annual Meeting

The Annual Meeting of Shareholders is scheduled to be held at the office of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Thursday, April 20, 2006, at 10:30 a.m.

Investor Information

The Company's Transfer Agent, Computershare Trust Company, N.A. ("Computershare"), is responsible for all shareholder records, including the distribution of dividends, tax documents and proxy materials. Shareholder requests regarding these and other matters can be addressed by corresponding directly with Computershare at:

Mail: PO Box 43010, Providence, RI 02940-3010
Telephone: 800-736-3001
www.Computershare.com/equiserve

For information about the Company and your investment, you may also call the Company directly, toll-free, at: 800-999-6501 and ask for the Shareholder Representative; or visit the Investor Relations page at www.Unitil.com.

Shareholder Programs

Dividend Reinvestment Plan

A Dividend Reinvestment and Stock Purchase Plan is available to all holders of record of the Company's Common Stock. This Plan provides shareholders with an economical means to increase their investment in the Company each quarter by reinvesting their dividends without broker fees. For additional information or enrollment, please contact the Company or Computershare.

Dividend Direct Deposit

Dividend Direct Deposit Service is available without charge to shareholders of record of the Company's Common Stock. For further information or enrollment in this service, please contact the Company or Computershare.

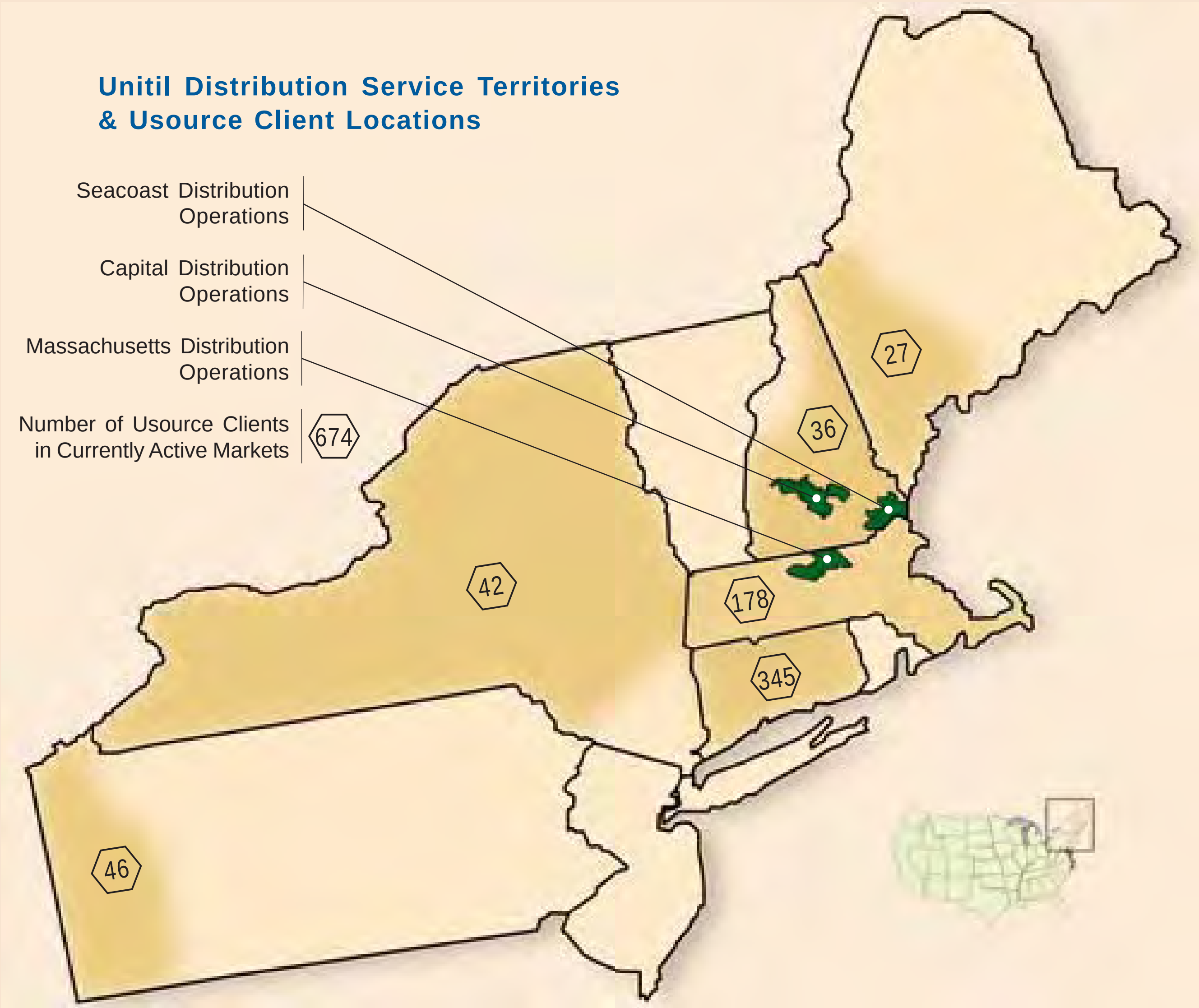
Direct Registration

Direct Registration is available without charge to shareholders of record of the Company's Common Stock. The Direct Registration System is a service within the securities industry that allows shares to be held and tracked electronically, without having to hold a stock certificate. For additional information, please contact Computershare at:

Mail: PO Box 43084, Providence, RI 02940-3084
Telephone: 800-935-9330
www.Computershare.com/equiserve

Unitil

Annual Report 2006



About the Company

Unitil (AMEX: UTL) is a public utility holding company with regulated utility subsidiaries providing electric service in New Hampshire and electric and natural gas service in Massachusetts. The Company also provides energy brokering and consulting services through its non-utility subsidiary. Additional information is available on line at www.unitil.com. Unitil's principal subsidiaries include Fitchburg Gas and Electric Light Company, Unitil Energy Systems, Inc., and its non-utility non-regulated business, Usource.

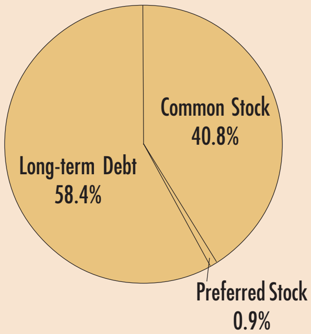
Unitil Receives National Recognition

In February 2007, Unitil was awarded the AMI Project of the Year Award at the DistribuTECH 2007 Conference & Exhibition in San Diego, California. This national award marks your Company as a leader in technical and operational innovation.

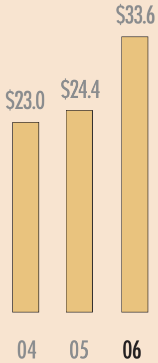
Financial Highlights

	2006	2005	2004
Financial Data (000's)			
Total Operating Revenues	**$ 260,861**	$ 232,145	$ 214,137
Total Operating Income	**$ 15,855**	$ 15,541	$ 15,193
Earnings Applicable to Common	**$ 7,900**	$ 8,397	$ 8,011
Capital Expenditures	**$ 33,642**	$ 24,367	$ 22,922
Common Share Data			
Earnings per Share	**$ 1.41**	$ 1.51	$ 1.45
Dividends Paid per Share	**$ 1.38**	$ 1.38	$ 1.38
Book Value per Share (Year-end)	**$ 17.30**	$ 17.21	$ 17.00
Market Price (Year-end)	**$ 25.35**	$ 25.16	$ 28.30
Average Common Shares Outstanding (000's)	**$ 5,612**	$ 5,568	$ 5,525
Operating Data			
Electric Distribution Sales (mWh)	**1,751,544**	1,790,405	1,742,131
Firm Gas Distribution Sales (000's of Therms)	**26,356**	24,332	23,151
Customers Served (Year-end)	**114,387**	113,593	112,288

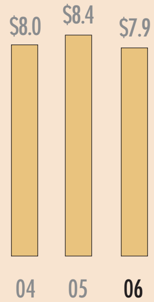
Capital Structure



Capital Expenditures
dollars in millions



Earnings Applicable to Common
dollars in millions



Our long-term goal is to achieve an annual earnings growth rate of 3% - 5%. Our overall financial performance in 2006 fell short of this goal. Earnings per share in 2006 were $1.41, as compared to $1.51 for 2005.

Earnings in 2006 reflect the impact of lower gas and electric sales, primarily due to significantly milder weather throughout the year and overall lower average monthly energy usage due to record high energy prices. Several factors partially offset the decline in sales, specifically an increase in electric distribution rates for our New Hampshire utility, increased gas sales under a new contract with our largest industrial customer, and lower overall utility operating costs.

The earnings shortfall in 2006 masked several significant accomplishments that provide the foundation for achieving our long-term financial goals. These successes included: the negotiation of rate case settlements in both Massachusetts and New Hampshire; continued growth of our non-regulated Usource business; and the continued transformation of our operations to realize improved productivity and reduced operating costs.

The overall economic health of our service territories remains positive. Customer accounts continued to grow in 2006, adding nearly 400 homes in our Massachusetts service area and 650 in New Hampshire. Although the housing market has slowed, development of a number of projects is continuing. New electric and gas commercial and industrial projects also adding to growth are under active development throughout our service areas.

It's not about technology. It's about how to optimize the organization to do things the best way.

— Glenn Appleton
Director, Meter & Service

This computer graphic, used in planning Unitil's system expansion, shows a satellite photo of Fitchburg, MA, with an overlay of Unitil's gas distribution system.

Regulation

Proactive involvement in state and federal regulatory arenas is one of our highest priorities. The utility business is fundamentally dependant on this economic regulation.

During the fourth quarter of 2006, the Company received final approval of a rate settlement that increased base distribution and other rates by about $3.1 million on an annualized basis for its utility operations in New Hampshire. The Company also recently received approval of a gas base rate settlement in Massachusetts for its gas distribution operations, which calls for a phase-in of gas distribution rate increases of $1.2 million as of February 1, 2007, and an additional $1.0 million increase on November 1, 2007. Together these rate changes represent an increase of about $5.3 million or 10% on Unitil's consolidated base electric and gas distribution revenues.

These price increases for our distribution services will contribute to more predictable financial results in the years ahead. They also underscore the excellent reputation your Company has with regulatory agencies and consumer groups.

Usource

Usource, our energy brokering business, grew significantly during 2006, adding new customer accounts and substantially increasing the volume and duration of energy transactions under

We are carefully managing the size of the company by integrating technology. — Tom Meissner, Senior VP & Chief Operating Officer

Usource management. Usource now has almost 700 major industrial and commercial customers in six northeast states. Usource revenues achieved a record level of $2.4 million, an increase of 23% over 2005. Moreover, as many of the contracts executed extend for multi-year periods, the expected future revenue stream for Usource also increased significantly. At year-end 2006, the expected future revenues for energy supply under contract over the next five years reached $6 million. Usource is well positioned to continue growing through expanded transaction volumes and acquisition of new customers throughout the Northeast, as competitive energy markets continue to mature.

Unitil's Automated Metering Infrastructure allows real-time monitoring of every gas and electric meter in the entire distribution system.

Operations Transformation

Operations Transformation is the integration of people and technology to accomplish desired work in the most efficient and cost effective manner possible. Doing it right requires good networking relationships at the most granular level in a business organization. Only the people who are actually doing the work can effectively guide the transformation of their workplace. That's what we do at Unitil – ask the people who do the work to guide the

We have refused to accept the old mantra that technology is complex. We believe technology is inherently simple.

— Raymond Morrissey, VP, Information Systems

process. Management provides the financial resources and the organizational structure that empowers its staff to get the job done. Our success is undeniable.

The pace of our transformation initiatives accelerated during 2006 and the results, in terms of both efficiency and improvements in key business processes, have exceeded expectations. In 2005 we reported that we had chosen to proceed with an Advanced Metering Infrastructure (AMI) project, our single largest capital investment. I am pleased to report that this project has been highly successful. It will be completed on time and on budget, and will result in total staffing being reduced by more than 20 positions.

In February 2007, Unitil was awarded the AMI Project of the Year Award at the DistribuTECH 2007 Conference & Exhibition in San Diego, California, one of the largest utility conferences held each year. This national award marks your Company as a leader in technical and operational innovation. A key factor to our success is the strong cross-functional teamwork in our metering, engineering, operations, accounting, and customer service functions.

Using "tablet" computers, Unitil's field personnel can research the location and history of underground facilities from their service vehicles, on site.

The AMI project will provide automated, two-way meter reading capability for all of our nearly 115,000 customers. End point data collectors at each

Unitil's geographical information system (GIS) links users across the Company, all utilizing the same data in a wide variety of business processes.

customer location communicate with servers located at our distribution substations, utilizing a power-line-carrier information transmission technology developed by Hunt Technologies. From the substation, the data is transmitted to a central processor that interprets the data and interfaces with the systems within the Company that utilize the data.

As of the end of January 2007, the AMI project in our Massachusetts service area was about 95% complete. Customer data is being collected, and billing information compiled, automatically, and remotely, for most of our customers, on time and ahead of budget.

In New Hampshire, meter installations in our Seacoast service area are well under way, with about one-third of meters installed at the end of January. Meter installations are continuing at a rate of 700 - 800 per day, and the entire system should be installed, tested, and providing data for billing purposes by May. We anticipate completing the Capital service area by summer.

On the personnel side, we have also nearly completed the reassignments of our long-term metering employees to other positions in the Company, in most cases to replace other workers who were retiring. This has allowed us to meet our goal of implementing a ma-

We have linked our business systems, using simple programming techniques to harness and integrate complex business ideas.

— Sean Baker, Manager, Software Services

jor technology initiative and workforce reduction without layoffs. Total staffing will be reduced by more than 20 positions when the project is completed.

Additional benefits of the AMI are already being realized. Customer Service representatives have the ability to generate automated read-in and read-out orders for a given meter while they are on the phone with a customer, significantly improving efficiency and customer satisfaction in the case of billing inquiries or requests for change of service account. AMI also eliminates the need for estimated bills that occur when a meter can't be read because of poor weather or access.

We are already working to assess the additional value which AMI could provide in the years ahead. For example, during a recent severe ice storm, employees used AMI data to identify outage locations, speeding restoration of service to customers. The AMI system updates meter status approximately every twenty minutes. With appropriate supplemental software, the system will be able to pinpoint outages and track outage data far more quickly and accurately than current practice, which relies largely on customer calls to identify outages.

Operations transformation is changing the way we work and the work we do.

A Sound Future

We made considerable progress on our strategic initiatives in 2006. We will continue to focus on these areas to strengthen our financial performance. We are also exploring new business and regulatory approaches to address the impact of the weather and lower

Now that we have begun to integrate our technologies, we are seeing that the whole is greater than the sum of its parts.

— Mark Lambert, Director, Customer Service

We now have the ability to present data graphically, which is more intuitive and a far more useful tool than the data, alone, would be. It gives us excellent tools for evaluating, planning, reporting, mapping, and tracking progress.

average customer usage that have contributed to earnings volatility over the last few years. These initiatives are all intended to help us achieve our target annual earnings growth rate of 3% to 5%.

Your Company is financially healthy. Our utility operations are the lowest cost in the region. Usource continues to provide the growth potential we hoped it would. We consistently exceed national benchmark scores for customer service. I believe we are well positioned to grow the value of your investment in the Company.

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

February 16, 2007

This Annual Report contains forward-looking statements, which are subject to the inherent uncertainties in predicting future results and conditions. All statements, other than statements of historical fact, are forward-looking statements. Certain factors that could cause the actual results to differ materially from those projected in these forward-looking statements include, but are not limited to the following: variations in weather; changes in the regulatory environment; customers' preferences on energy sources; general economic conditions; increased competition; fluctuations in supply, demand, transmission capacity, and prices for energy commodities; and other uncertainties, all of which are difficult to predict, and many of which are beyond the control of Unitil Corporation.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-8858

UNITIL CORPORATION
(Exact name of registrant as specified in its charter)

New Hampshire **(State or other jurisdiction of incorporation or organization)**	**02-0381573** **(I.R.S. Employer Identification No.)**
6 Liberty Lane West, Hampton, New Hampshire **(Address of principal executive offices)**	**03842-1720** **(Zip Code)**

Registrant's telephone number, including area code: (603) 772-0775

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, No Par Value	**American Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Based on the closing price of June 30, 2006, the aggregate market value of common stock held by non-affiliates of the registrant was $132,492,742.

The number of common shares outstanding of the registrant was 5,660,619 as of February 21, 2007.

Documents Incorporated by Reference:

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 19, 2007, are incorporated by reference into Part III of this Report

UNITIL CORPORATION
FORM 10-K
For the Fiscal Year Ended December 31, 2006
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Exhibit 23.2	Consent of Independent Registered Public Accounting Firm
Exhibits 31.1-31.3	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

PART I

Item 1. Business

UNITIL CORPORATION

Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil was incorporated under the laws of the State of New Hampshire in 1984. The following companies are wholly-owned subsidiaries of Unitil:

Unitil Corporation Subsidiaries	State and Year of Organization	Principal Type of Business
Unitil Energy Systems, Inc. (UES)	NH - 1901	Retail Electric Distribution Utility
Fitchburg Gas and Electric Light Company (FG&E)	MA - 1852	Retail Electric & Gas Distribution Utility
Unitil Power Corp. (Unitil Power)	NH - 1984	Wholesale Electric Power Utility
Unitil Service Corp. (Unitil Service)	NH - 1984	Utility Service Company
Unitil Realty Corp. (Unitil Realty)	NH - 1986	Real Estate Management
Unitil Resources, Inc. (Unitil Resources)	NH - 1993	Non-regulated Energy Services
Usource Inc. and Usource L.L.C. (Usource)	DE - 2000	Energy Brokering and Advisory Services

Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005. Prior to the passage of the Energy Policy Act of 2005, Unitil and its subsidiaries were subject to regulation as a registered holding company system under the Public Utility Holding Company Act of 1935 (PUHCA) by the Securities and Exchange Commission (SEC). As a result of the enactment of the Energy Policy Act of 2005, PUHCA has been repealed.

Unitil's principal business is the retail distribution of electricity in the southeastern seacoast and capital city areas of New Hampshire and the retail distribution of both electricity and natural gas in the greater Fitchburg area of north central Massachusetts. Unitil has two distribution utility subsidiaries, UES, which operates in New Hampshire and FG&E, which operates in Massachusetts (collectively referred to as the "retail distribution utilities"). Unitil's retail distribution utilities serve approximately 99,300 electric customers and 15,000 natural gas customers in their franchise areas. The retail distribution companies are local "pipes and wires" utility distribution companies with a combined investment in net utility plant of $231.8 million at December 31, 2006. Unitil's total revenue was $260.9 million in 2006. Earnings applicable to common shareholders for 2006 was $7.9 million. Substantially all of Unitil's revenue and earnings are derived from regulated utility operations.

A third utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for UES. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of UES on May 1, 2003 and divested of substantially all of its long-term power supply contracts through the sale of the entitlements to the electricity associated with those contracts.

Unitil also has three other wholly-owned subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company's corporate office in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Resources is the Company's wholly-owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly-owned subsidiaries of Unitil Resources. Usource provides energy brokering and advisory services to large commercial and industrial customers in the northeastern United States.

OPERATIONS

Electric Utility Operations

Unitil's electric utility operations are conducted through the retail distribution utilities, UES and FG&E. Revenue from Unitil's electric utility operations was $225.2 million for 2006. Earnings from electric utility operations were $7.0 million for the same 12-month period.

The primary business of Unitil's electric utility operations is the local distribution of electricity to customers in its franchise areas. As a result of the implementation of retail choice in New Hampshire and Massachusetts, Unitil's customers are free to contract for their supply of electricity with third-party suppliers. The retail distribution utilities continue to deliver that supply of electricity over their distribution systems. Both UES and FG&E supply electricity to those customers who do not obtain their supply from third-party suppliers, with the costs associated with electricity supplied by the Company being recovered on a pass-through basis under periodically-adjusted rates.

UES distributes electricity to approximately 71,600 customers in New Hampshire in the capital city of Concord as well as 12 surrounding towns and all or part of 16 towns in the southeastern and seacoast regions of New Hampshire, including the towns of Hampton, Exeter, Atkinson and Plaistow. UES' franchise areas consist of approximately 408 square miles. The state capital of New Hampshire is located within UES' franchise areas, and includes the executive, legislative and judicial branches and offices and facilities for all major state government services as well as several federal government facilities. In addition, UES' franchise areas are retail trading and recreation centers for the central and southeastern parts of the state. These areas serve diversified commercial and industrial businesses, including manufacturing firms engaged in the production of electronic components, wires and plastics. UES' franchise areas include popular resort areas and beaches along the Atlantic Ocean, including the Hampton Beach recreational area. UES' 2006 retail electric operating revenue was $155.8 million, of which approximately 45.0% was derived from residential sales and 55.0% from commercial/industrial sales.

FG&E is engaged in the retail distribution of both electricity and natural gas in the city of Fitchburg and several surrounding communities. FG&E's franchise area encompasses approximately 170 square miles. Electricity is supplied and distributed by FG&E to approximately 27,700 customers in the communities of Fitchburg, Ashby, Townsend and Lunenburg. FG&E's industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries. FG&E's 2006 retail electric operating revenue was $69.4 million, of which approximately 46.0% was derived from residential sales and 54.0% from commercial/industrial sales.

Gas Utility Operations

Natural gas is supplied and distributed by FG&E to approximately 15,000 retail customers in the communities of Fitchburg, Lunenburg, Townsend, Ashby, Gardner and Westminster, all located in Massachusetts.

As a result of the introduction of retail choice for all natural gas customers in Massachusetts, FG&E's customers are free to contract for their supply of natural gas with third-party suppliers. FG&E continues to provide natural gas supply services to those customers who do not obtain their supply from third-party suppliers. The costs associated with natural gas supplied by FG&E are recovered on a pass-through basis under periodically adjusted rates.

FG&E's 2006 gas operating revenue was $33.3 million, of which approximately 51.0% was derived from residential firm sales and 49.0% from commercial/industrial firm sales. Earnings from FG&E's gas utility operations were $0.5 million for 2006.

Seasonality

Natural gas sales in New England are seasonal, and the Company's results of operations reflect this seasonal nature. Accordingly, results of operations are typically positively impacted by gas operations during the five heating season months, from November through March. Electric sales in New England are far less seasonal than natural gas sales; however, the highest usage typically occurs in both the summer due to air conditioning demand and the winter months due to heating-related requirements and shorter daylight hours.

Non-regulated and Other Non-Utility Operations

Unitil's non-regulated operations are conducted through Unitil Resources and its subsidiary Usource. Usource provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Revenue from Unitil's non-regulated operations was $2.4 million in 2006. Earnings from Unitil's non-regulated operations was a net loss of ($0.2 million) in 2006. Unitil's other non-utility subsidiaries include Unitil Service and Unitil Realty, which provide centralized facilities, management and administrative services to Unitil's affiliated companies. Unitil's consolidated net income includes the earnings of the holding company and these subsidiaries. The earnings of these other non-utility operations are principally derived from income earned on short-term investments and real property owned for Unitil's and its subsidiaries' use and is reported in Other segment income (for segment information, see Part II, Item 8, Note 10 herein). Net earnings from Unitil's other non-utility operations was $0.6 million in 2006.

(For details on Unitil's Results of Operations, see Part II, Item 7 herein.)

RATES AND REGULATION

Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 in regards to certain bookkeeping, accounting and reporting requirements. Unitil's utility operations related to wholesale and interstate energy business activities are also regulated by FERC. The retail distribution utilities, UES and FG&E, are subject to regulation by the New Hampshire Public Utilities Commission (NHPUC) and the Massachusetts Department of Telecommunications and Energy (MDTE), respectively, in regards to their rates, issuance of securities and other accounting and operational matters. Because Unitil's primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company's operations and financial position.

Unitil's retail distribution utilities have the franchise to deliver electricity and/or natural gas to all customers in their franchise areas, at rates established under traditional cost of service regulation. Under this regulatory structure, UES and FG&E recover the cost of providing distribution service to their customers based on a historical test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in Massachusetts and New Hampshire, Unitil's customers have the opportunity to purchase their electric or natural gas supplies from third party vendors. Most customers, however, continue to purchase such supplies through UES and FG&E as the provider of last resort. UES and FG&E purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual costs of these supplies on a pass-through basis, as well as certain costs associated with industry restructuring, through reconciling rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, Unitil Power and FG&E divested substantially all of their long-term power supply contracts and interests in generation assets through the sale of the interest in those assets or the sale of the entitlements to the electricity provided by those generation assets and long-term power supply contracts. UES and FG&E recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDTE, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next four to six years, is $126.1 million as of December 31, 2006 and is included in Regulatory Assets on the Company's Consolidated Balance Sheet (see Regulatory Assets table in Note 1.) Unitil's retail distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

ELECTRIC POWER SUPPLY

The transition to retail choice required the divestiture of Unitil's existing power supply arrangements and the procurement of replacement supplies, which provided the flexibility for migration of customers to and from utility service. FG&E, UES, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the Independent System Operator—New England (ISO-NE) markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve Unitil's retail customers.

Unitil's customers in both New Hampshire and Massachusetts now have the opportunity to purchase their electric supply from competitive retail suppliers. Retail choice has been successful for Unitil's largest customers. As of December 2006, 45% of Unitil's largest New Hampshire customers representing 18% of total New Hampshire electric sales and 87% of Unitil's largest Massachusetts customers representing 42% of total Massachusetts electric sales are purchasing their electric power supply in the competitive market. However, most residential and small commercial customers continue to purchase their electric supply through the retail distribution utilities. The concentration of the competitive retail market on higher use customers has been a common experience throughout the New England electricity market.

Regulated Energy Supply

In order to provide regulated electric supply as the provider of last resort to their respective retail customers, the retail distribution companies enter into wholesale electric power supply contracts with various wholesale suppliers.

FG&E has power supply contracts with various wholesale suppliers for the provision of Default Service. MDTE policy dictates the pricing structure and duration of each of these contracts. Currently, all Default Service power supply contracts for large general accounts are three months in duration. Default Service power supply contracts for residential and small and medium general service customers are acquired every 6 months, with each 12 month contract providing 50% of the class requirements. The MDTE is investigating alternatives to the current procurement policy for all accounts, other than the large general accounts. This process could potentially lead to the procurement of FG&E Default Service power supply for longer durations in order to provide more price stability for smaller customers throughout Massachusetts for whom competitive retail options are relatively scarce.

UES currently has power supply contracts with various wholesale suppliers for the provision of Default Service to its customers. UES procures Default Service for its largest general service accounts through successive competitive solicitations of three-months duration and procures Default Service for all other customers through a series of two one-year contracts and two three-year contracts with each contract covering 25% of the total requirements of the group. The first two contracts were of 6-months and 18-months duration in order to stagger the start dates of future 1-year and 3-year procurements.

Regional Transmission and Power Markets

FG&E, UES and Unitil Power, as well as virtually all New England electric utilities, are participants in ISO New England Inc., the Regional Transmission Organization (RTO) in New England. The regional bulk power system is operated by an independent corporate entity, ISO-NE. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economic manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. The Tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric marketplace. The formation of an RTO and other wholesale market changes are not expected to have a material impact on Unitil's operations because of the cost recovery mechanisms for wholesale energy and transmission costs approved by the MDTE and NHPUC.

GAS SUPPLY

FG&E's natural gas customers now have the opportunity to purchase their natural gas supply from third-party suppliers, though most customers continue to purchase such supplies at regulated rates through FG&E as the provider of last resort. The costs associated with the acquisition of such wholesale natural gas supplies for customers who do not contract with third-party suppliers are recovered on a pass-through basis through periodically-adjusted rates and are included in Purchased Gas in the Consolidated Statements of Earnings.

FG&E purchases natural gas from domestic and Canadian suppliers under contracts of one year or less, as well as from producers and marketers on the spot market and arranges for the transportation to its distribution facilities under long-term contracts with the Tennessee interstate pipeline. FG&E has a four-year contract for liquefied natural gas (LNG) supply ending in 2008, which was approved by the MDTE. The following tables summarize actual gas purchases by source of supply and the cost of gas sold for the years 2004 through 2006.

Sources of Gas Supply
(Expressed as percent of total MMBtu of gas purchased)

	2006	2005	2004
Natural Gas:			
Domestic firm	**84.2%**	84.8%	85.0%
Canadian firm	**2.0%**	3.4%	5.4%
Domestic spot market	**11.0%**	9.3%	5.9%
Total natural gas	**97.2%**	97.5%	96.3%
Supplemental gas	**2.8%**	2.5%	3.7%
Total gas purchases	**100.0%**	100.0%	100.0%

Cost of Gas Sold

	2006	2005	2004
Cost of gas purchased and sold per MMBtu	**$11.18**	$10.83	$ 8.42
Percent Increase from prior year	**3.2%**	28.7%	17.9%

FG&E has available under firm contract 14,057 MMbtu per day of year-round and seasonal transportation and underground storage capacity to its distribution facilities. As a supplement to pipeline natural gas, FG&E owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

ENVIRONMENTAL MATTERS

The Company's past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. The Company believes it is in compliance with all applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2006, there are no material losses reasonably possible in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

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

FG&E has recovered the environmental response costs incurred at this former MGP site in gas rates pursuant to an MDTE approved settlement agreement between the Massachusetts Attorney General and the natural gas utilities of the Commonwealth of Massachusetts (Agreement). The Agreement allows FG&E to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs. In addition FG&E has filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. Any recovery that FG&E receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between FG&E and its gas customers.

FG&E is in the process of developing long range plans for a feasible permanent remediation solution for the Sawyer Passway site, including alternatives for re-use of the site. Included on the Company's Consolidated Balance Sheet at December 31, 2006 in Environmental Obligations is $12.0 million related to estimated future costs for permanent remediation of the site. A corresponding regulatory asset was recorded to reflect the future rate recovery for these costs. The amounts recorded do not assume any amounts are recoverable from insurance companies or other third parties.

The Company's ultimate liability for future environmental remediation costs may vary from estimates, which may be adjusted as new information or future developments become available. Based on the Company's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, the Company does not believe that these environmental costs will have a material adverse effect on the Company's consolidated financial position or results of operations.

EMPLOYEES

As of December 31, 2006, the Company and its subsidiaries had 304 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

There are approximately 100 employees represented by labor unions. These employees are covered by collective bargaining agreements, which expire May 31, 2010. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. The Company expects to successfully negotiate new agreements prior to their expiration dates.

AVAILABLE INFORMATION

The Company's Internet address is www.unitil.com. There, the Company makes available, free of charge, its SEC fillings, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports, as well as amendments to those reports. These reports are made available through the Investors section of Unitil's website via a direct link to the section of the SEC's website which contains Unitil's SEC filings.

The Company's current Code of Ethics was approved by Unitil's Board of Directors on January 15, 2004. This Code of Ethics, along with any amendments or waivers, is also available on Unitil's website.

Unitil's common stock is listed on the American Stock Exchange under the ticker symbol "UTL."

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table provides information about our directors and senior management as of February 21, 2007:

Name	Age	Position
Robert G. Schoenberger	56	Chairman of the Board, Chief Executive Officer and President
Mark H. Collin	47	Senior Vice President, Chief Financial Officer and Treasurer
Thomas P. Meissner, Jr.	44	Senior Vice President and Chief Operating Officer
Laurence M. Brock	53	Controller and Chief Accounting Officer
Todd R. Black	42	President, Usource
George R. Gantz	55	Senior Vice President, Customer Services and Communications, Unitil Service Corp.
George E. Long, Jr.	50	Vice President, Administration, Unitil Service Corp.
Raymond J. Morrissey	59	Vice President, Information Systems
Sandra L. Whitney	43	Corporate Secretary
Dr. Robert V. Antonucci	61	Director
David P. Brownell	63	Director
Michael J. Dalton	66	Director
Albert H. Elfner, III	62	Director
Edward F. Godfrey	57	Director
Michael B. Green	57	Director
Eben S. Moulton	60	Director
M. Brian O'Shaughnessy	63	Director
Charles H. Tenney, III	59	Director
Dr. Sarah P. Voll	64	Director

Robert G. Schoenberger has been Unitil's Chairman of the Board and Chief Executive Officer since 1997 and Unitil's President since 2003. Prior to his employment with Unitil, he was President and Chief Executive Officer of the New York Power Authority (a state owned public power enterprise) from 1993 until 1997. He is also a Trustee and Chairman of Exeter Health Resources.

Mark H. Collin has been Unitil's Senior Vice President and Chief Financial Officer since February 2003. Mr. Collin has served as Unitil's Treasurer since 1998. Since 1992, he has been Treasurer of UES and FG&E. Mr. Collin joined Unitil in 1988. Mr. Collin serves on the Board of Governors of New Hampshire Public Television.

Thomas P. Meissner, Jr. has been Unitil's Senior Vice President and Chief Operating Officer since June 2005. Mr. Meissner served as Unitil's Senior Vice President, Operations from February 2003 through June 2005. Mr. Meissner joined Unitil in 1994 and served as Unitil's Director of Engineering from 1998 to 2003. From 1985 to 1994, he was employed by the Public Service Company of New Hampshire.

Laurence M. Brock has been Unitil's Chief Accounting Officer and Controller since June 2005. Mr. Brock joined Unitil in 1995 as Vice President and Controller, and is a Certified Public Accountant in the State of New Hampshire. Prior to his employment with Unitil, Mr. Brock served as a Corporate Controller with a group of diversified financial services and manufacturing companies. Mr. Brock gained his public accounting experience with Coopers & Lybrand in Boston, Massachusetts.

Todd R. Black has been President of Usource since June 2003. He served as Vice President, Sales and Marketing for Usource from 1998 to 2003. Prior to his employment with Unitil, he served as Vice President, Services Delivery for Energy USA, the non-regulated subsidiary of Bay State Gas Company, from 1988 until 1998.

George R. Gantz has been Unitil's Senior Vice President, Customer Services and Communications since January 2003. Mr. Gantz previously served as Unitil's Senior Vice President, Communication and Regulation from 1994 to 2003. Mr. Gantz joined Unitil in 1983.

George E. Long, Jr. has been Unitil's Vice President, Administration since February 2003. Mr. Long joined Unitil in 1994 and was Director, Human Resources from 1998 to 2003. Prior to his employment with Unitil, Mr. Long was the Director of Compensation and Benefits at Monarch Life Insurance Company from 1985 to 1994.

Raymond J. Morrissey has been Unitil's Vice President, Information Systems since February 2003. From 1992 to 2003, he served as Unitil's Vice President of Customer Service, and from 1991 to 1992, he was the General Manager of Unitil's subsidiary, FG&E. Mr. Morrissey joined Unitil in 1985.

Sandra L. Whitney has been Unitil's Corporate Secretary and Secretary of the Board since February 2003. Ms. Whitney has been the Corporate Secretary of Unitil's subsidiary companies, FG&E, UES, Unitil Power, Unitil Realty and Unitil Service since 1994. Ms. Whitney joined Unitil in 1990.

Dr. Robert V. Antonucci has been President of Fitchburg State College since 2003. Dr. Antonucci was also President of the School Group of Riverdeep, Inc. from 2001 to 2003, and President and CEO of Harcourt Learning Direct and Harcourt Online College from 1998 to 2001. Dr. Antonucci also served as the Commissioner of Education for the Commonwealth of Massachusetts from 1992 to 1998. Dr. Antonucci also serves as a Director of Eastern Bank.

David P. Brownell was a Senior Vice President of Tyco International Ltd. from 1995 until his retirement in 2003. He had been with Tyco since 1984. Mr. Brownell is also Interim President of the University of New Hampshire Foundation.

Michael J. Dalton was Unitil's President and Chief Operating Officer from 1984 until his retirement in 2003. Mr. Dalton is a member of the Industrial Advisory Board of the University of New Hampshire College of Engineering and Physical Sciences.

Albert H. Elfner, III was the Chairman, from 1994, and Chief Executive Officer, from 1995, of Evergreen Investment Management Company until his retirement in 1999. Mr. Elfner is also a Director of NGM Insurance Company (NGM), as well as a member of the NGM Finance Committee.

Edward F. Godfrey was the Executive Vice President and Chief Operating Officer of Keystone Investments, Incorporated from 1997 until his retirement in 1998. While at Keystone Investments, he was also a Senior Vice President, Chief Financial Officer and Treasurer from 1988 to 1996. Mr. Godfrey is also a Director of VehiCare, LLC since 2006.

Michael B. Green has been the President and Chief Executive Officer of Capital Region Health Care and Concord Hospital since 1992. Mr. Green is also a member of the Adjunct Faculty, Dartmouth Medical School, Dartmouth College. He also currently serves on the Board of the Foundation for Healthy Communities, is a Director and Chair of the New Hampshire Hospital Association, a Director of New Hampshire Business Committee for the Arts, a Director of Merrimack County Savings Bank, including membership on the bank's Investment and Audit Committees, and a member of the *Concord Monitor* Board of Contributors.

Eben S. Moulton has been the Managing Partner of Seacoast Capital Corporation since 1995. Mr. Moulton is also a Director of IEC Electronics, a Director of six private companies and a Trustee of Colorado College.

M. Brian O'Shaughnessy has been the Chairman of the Board, Chief Executive Officer and President of Revere Copper Products, Inc. since 1988. Mr. O'Shaughnessy also serves on the Board of Directors of the National Association of Manufacturers, the International Copper Association, the Copper Development Association, and the Copper and Brass Fabricators Council. He also serves in New York State as Chairman of the Industrial Energy Consumer Coalition, and as a member of the Board of Directors of the Multiple Intervenors.

Charles H. Tenney, III has been Director of Operations for Brainshift.com, Inc. since 2002. He also served as a financial advisor for H&R Block Financial Advisors from 2001 to 2002. Mr. Tenney also served on the Board of Overseers of the Huntington Theater Company, Boston, Massachusetts from 2004 – 2006.

Dr. Sarah P. Voll has been the Vice President, National Economic Research Associates, Inc. (NERA) since 1999. Dr. Voll was also a Senior Consultant at NERA from 1996 to 1999. Prior to her employment with NERA, Dr. Voll was a staff member at the New Hampshire Public Utilities Commission from 1980 – 1996.

INVESTOR INFORMATION

Annual Meeting

The annual meeting of shareholders is scheduled to be held at the offices of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Thursday, April 19, 2007, at 10:30 a.m.

Transfer Agent

The Company's transfer agent, Computershare, is responsible for shareholder records, issuance of stock certificates, and the distribution of Unitil's dividends and IRS Form 1099-DIV. Shareholders may contact Computershare at:

Computershare
P.O. Box 43078
Providence, RI 02940-3078
Telephone: 800-736-3001
www.computershare.com

Investor Relations

For information about the Company and your investment, you may call the Company directly, toll-free, at: 800-999-6501 and ask for the Investor Relations Representative; visit the Investor page at *www.unitil.com*; or contact the transfer agent, Computershare, at the number listed above.

Special Services & Shareholder Programs Available

- Internet Account Access is available at *www.computershare.com*.
- Dividend Reinvestment Plan:

  To enroll, please contact the Company's Investor Relations Representative or Computershare.
- Dividend Direct Deposit Service:

  To enroll, please contact the Company's Investor Relations Representative or Computershare.
- Direct Registration:

  For information, please contact Computershare at 800-935-9330 or the Company's Investor Relations Representative at 800-999-6501.

Item 1A. Risk Factors

Risks Relating to Our Business

Risks related to the regulation of our business could impact the rates we are able to charge, our costs and our profitability.

We are subject to comprehensive regulation by federal and state regulatory authorities, which significantly influences our operating environment and our ability to recover costs from our customers. In particular, we are regulated by the FERC and state regulatory authorities with jurisdiction over public utilities, including the NHPUC and the MDTE. These authorities regulate many aspects of our operations, including, but not limited to, construction and maintenance of facilities, operations, safety, issuance of securities, accounting matters, transactions between affiliates, the rates that we can charge customers and the rate of return that we are allowed to realize. Our ability to obtain rate adjustments to maintain our current rate of return depends upon regulatory action under applicable statutes, rules and regulations, and we cannot assure you that we will be able to obtain rate adjustments or continue receiving our current authorized rates of return. These regulatory authorities are also empowered to impose financial penalties and other sanctions on us if we are found to have violated statutes and regulations governing our utility operations.

We are unable to predict the impact on our operating results from the regulatory activities of any of these agencies. Although we have attempted to actively manage the rate making process and have had recent success in obtaining rate increases, we can offer no assurances as to future success in the rate making process. Despite our requests, these regulatory commissions have authority under applicable statutes, rules and regulations to leave our rates unchanged, grant increases or order decreases in such rates. They have similar authority with respect to the recovery of our electricity and natural gas supply costs incurred by UES and FG&E in their role as a "provider of last resort" for customers who do not contract with third-party suppliers, or whose third-party supplier fails to deliver. In the event that we are unable to recover these costs or recovery of these costs were to be significantly delayed, our operating results could be materially adversely affected. Changes in regulations or the imposition of additional regulations could also have an adverse effect on our operating results.

As a result of industry restructuring, we have a significant amount of certain stranded energy supply costs, which are subject to recovery in future periods.

The stranded costs resulting from the implementation of industry restructuring mandated by the states of New Hampshire and Massachusetts are recovered by us on a pass-through basis through periodically adjusted rates. Any unrecovered balance of purchased power or stranded costs is deferred for future recovery as a regulatory asset. Such regulatory assets are subject to periodic regulatory review and approval for recovery in future periods.

Our power supply portfolio related stranded costs due to the electric industry restructuring in New Hampshire and Massachusetts for which regulatory approval has been obtained for recovery were approximately $50.0 million for FG&E and $42.6 million for UES as of December 31, 2006 (See total of $92.6 million on the Power Supply Buyout Obligations line of Regulatory Assets table of Note 1). Substantially all of FG&E's stranded costs relate to owned generation assets and power purchase agreements divested by FG&E under a long-term contract buy-out agreement. Approximately $18.4 million of UES' stranded costs are attributable to the long-term power purchase agreements divested by Unitil Power under a long-term contract buyout agreement. Because FG&E and Unitil Power remain ultimately responsible for purchase power payments underlying these long-term buyout agreements, FG&E and Unitil Power could incur additional stranded costs were they required to resell such divested entitlements prior to the end of their term for amounts less than the amounts agreed to under the existing long-term buyout agreements. We expect that any such additional stranded costs would be recovered from our customers, although such recovery would require approval from the MDTE or NHPUC, the receipt of which cannot be assured.

Our electric and natural gas sales and revenues are highly correlated with the economy, and national, regional and local economic conditions may negatively impact our customers and correspondingly our operating results and financial condition.

Our business is influenced by the economic activity of our franchise areas. The level of economic growth in our electric and natural gas distribution franchise areas directly affects our potential for future growth in our business. As a result, adverse changes in the economy may have negative effects on our revenues, operating results and financial condition.

Declines in the valuation of capital markets could require us to make substantial cash contributions to cover our pension obligations, which could negatively impact our financial condition. In addition, the recovery of certain pension obligations is subject to regulatory risks.

We made a voluntary cash contribution to our pension plan of $2.0 million in 2004. In 2005, we were required to make a minimum cash contribution of $0.7 million to our pension plan and made an additional voluntary cash contribution of $1.8 million for a total of $2.5 million. In 2006, we were required and made a minimum cash contribution of $2.5 million to our pension plan. If the valuation of capital markets were to significantly decline from current levels, we may be required to make cash contributions to our pension plans substantially in excess of the levels currently anticipated, which could adversely affect our financial condition.

On August 17, 2006, the Pension Protection Act of 2006 (PPA) was signed into law. Included in the PPA are new minimum funding rules which will go into effect for plan years beginning in 2008. The funding target will be 100% of a plan's liability with any shortfall amortized over seven years, with lower (92% – 100%) funding targets available to well-funded plans during the transition period.

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", (SFAS No. 158), an amendment of SFAS No. 87, "Employers' Accounting for Pensions", SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for

Termination Benefits,” SFAS No. 106, “Employers’ Accounting for Postretirement Benefits other than Pensions” and SFAS No. 132(R), “Employers’ Disclosures about Pensions and Other Postretirement Benefits.” SFAS No. 158 requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas retail rates. In the event that we are unable to recover these costs or recovery of these costs were to be significantly delayed, our operating results could be materially adversely affected. See Note 8 also.

Increases in interest rates could have a negative impact on our financial condition.

Our utility subsidiaries have ongoing capital expenditure requirements which they frequently fund by issuing short and long-term debt. Changes in interest rates do not affect interest expense associated with presently outstanding fixed rate long-term debt securities. However, changes in interest rates may affect the interest rate and corresponding interest expense on any new long-term debt securities that are issued. In addition, short-term debt borrowings are typically at variable rates of interest. As a result, changes in short-term interest rates will increase or decrease our interest expense associated with short-term borrowings. Increases in interest rates generally will increase our borrowing costs and could adversely affect our financial condition or results of operations.

Weather conditions may cause our sales to vary from year to year.

Our utility operating sales vary from year to year, depending on weather conditions. We estimate that approximately 75% of our annual natural gas sales are temperature sensitive. As a result, mild winter temperatures can cause a decrease in the amount of gas we sell in any year, particularly during the winter heating season. Our electric sales are generally less sensitive to weather than our gas sales, but may also be affected by weather conditions in both the winter and summer seasons.

We are a holding company and have no operating income of our own. Our ability to pay dividends on our common stock is dependent on dividends received from our subsidiaries and on factors directly affecting us, the parent corporation. We cannot assure you that our current annual dividend will be paid in the future.

We are a public utility holding company and we do not have any operating income of our own. Consequently, our ability to pay dividends on our common stock is dependent on dividends and other payments received from our subsidiaries, principally UES and FG&E. The ability of our subsidiaries to pay dividends or make distributions to us will depend on, among other things:

- the actual and projected earnings and cash flow, capital requirements and general financial condition of our subsidiaries;
- the prior rights of holders of existing and future preferred stock, mortgage bonds, long-term notes and other debt issued by our subsidiaries;
- the restrictions on the payment of dividends contained in the existing loan agreements of UES and FG&E and that may be contained in future debt agreements of our subsidiaries, if any;
- limitations imposed by New Hampshire and Massachusetts state regulatory agencies, which, among other things, may prohibit the payment of dividends by subsidiaries out of capital or unearned surplus without prior approval.

In addition, we may incur indebtedness in the future. Before we can pay dividends on our common stock, we have to satisfy our debt obligations and comply with any statutory or contractual limitations.

Our current annual dividend is $1.38 per share of common stock, payable quarterly. However, our board of directors reviews our dividend policy periodically in light of the factors referred to above, and we cannot assure you of the amount of dividends, if any, that may be paid in the future.

Transporting and storing natural gas and supplemental gas supplies, as well as electricity, involve numerous risks that may result in accidents and other operating risks and costs.

Inherent in our electric and gas distribution activities are a variety of hazards and operating risks, such as leaks, explosions, electrocutions and mechanical problems that could cause substantial financial losses. In addition, these risks could result in loss of human life, significant damage to property, environmental pollution, and impairment of our operations and substantial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks and losses. The location of pipelines, storage facilities and electric distribution equipment near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. The occurrence of any of these events not fully covered by insurance could adversely affect our financial position and results of operations.

Our business is subject to environmental regulation in all jurisdictions in which we operate and our costs of compliance are significant. Any changes in existing environmental regulation and the incurrence of environmental liabilities could negatively affect our results of operations and financial condition.

Our utility operations are generally subject to extensive federal, state and local environmental laws and regulations relating to air quality, water quality, waste management, natural resources and the health and safety of our employees. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties; imposition of remedial requirements; and even issuance of injunctions to ensure future compliance. Liability under certain environmental laws is strict, joint and several in nature. Although we believe we are in general compliance with all applicable environmental and safety laws and regulations, there can be no assurance that significant costs and liabilities will not be incurred in the future. Moreover, it is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations, could result in increased environmental compliance costs. See “Environmental Matters” in the Part I, Item 1, and Note 5 of this report for further detail.

Catastrophic events could have a material adverse effect on our financial condition or results of operations.

The electric and natural gas utility industries are from time to time affected by catastrophic events, such as unusually severe weather and significant and widespread failures of plant and equipment. Other catastrophic occurrences, such as terrorist attacks on utility facilities, may occur in the future. Such events could have a material adverse effect on us, since they could inhibit our ability to continue providing electric and/or gas distribution services to our customers for an extended period, which is the principal source of our operating income.

Customers’ future performance under multi-year energy brokering contracts.

The Company’s non-regulated energy brokering business provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Revenues from this business are primarily derived from brokering fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts. The Company cannot guarantee customers’ future performance under multi-year energy brokering contracts.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2006, Unitil owned, through its retail distribution utilities: two operation centers, approximately 2,155 pole miles of local transmission and distribution overhead electric lines and 518 conduit bank miles of underground electric distribution lines, along with 59 electric substations, including three mobile electric substations. FG&E's natural gas operations property includes a liquid propane gas plant, a liquid natural gas plant and 317 miles of underground gas mains. In addition, Unitil's real estate subsidiary, Unitil Realty, owns the Company's corporate headquarters building and the 12 acres on which it is located.

UES owns and maintains distribution operations centers in Concord, New Hampshire and Kensington, New Hampshire. UES' 37 electric distribution substations, including a 5,000 kilovolt ampere (kVA) mobile substation, constitute 257,315 kVA of capacity (includes spares and mobile) for the transformation of electric energy from the 34.5 kV sub-transmission voltage to other primary distribution voltage levels. The electric substations are located on land owned by UES or occupied by UES pursuant to a perpetual easement.

UES has a total of approximately 1,598 pole miles of local transmission and distribution overhead electric lines and a total of 342 conduit bank miles of underground electric distribution lines. The electric distribution lines are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by UES without objection by the owners. In the case of certain distribution lines, UES owns only a part interest in the poles upon which its wires are installed, the remaining interest being owned by telephone companies.

Additionally, UES owns 139.2 acres of non-utility property located on the east bank of the Merrimack River in Concord, New Hampshire. Of the total acreage, 81.2 acres are located within an industrial park zone.

The physical utility properties of UES, with certain exceptions, and its franchises are pledged as security under its indenture of mortgage and deed of trust under which the respective series of first mortgage bonds of UES are outstanding.

FG&E's electric properties consist principally of 557 pole miles of local transmission and distribution overhead electric lines, 176 conduit bank miles of underground electric distribution lines and 22 transmission and distribution stations including two mobile electric substations. The capacity of these substations totals 662,650 kVA.

FG&E owns a liquid propane gas plant and a liquid natural gas plant and the land on which they are located. FG&E also has 317 miles of underground steel, cast iron and plastic gas mains.

FG&E's electric substations, with minor exceptions, are located on land owned by FG&E or occupied by FG&E pursuant to a perpetual easement. FG&E's electric distribution lines and gas mains are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by FG&E without objection by the owners. FG&E leases its distribution operations center located in Fitchburg, Massachusetts.

The Company believes that its facilities are currently adequate for their intended uses.

Item 3. Legal Proceedings

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. Certain specific matters are discussed in Note 5 to the Consolidated Financial Statements. The Company believes, based upon information furnished by counsel and others, the ultimate resolution of these claims will not have a material impact on the Company's financial position.

Item 4 Submission of Matters to a Vote of Security Holders

None

PART II

Item 5 Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Registrant's Common Stock is traded on the American Stock Exchange. As of December 31, 2006, there were 1,389 Common Shareholders of record.

Common Stock Data

Dividends per Common Share	2006	2005
1st Quarter	**$0.345**	$0.345
2nd Quarter	**0.345**	0.345
3rd Quarter	**0.345**	0.345
4th Quarter	**0.345**	0.345
Total for Year	**$ 1.38**	$ 1.38

	2006		2005	
Price Range of Common Stock	High/Ask	Low/Bid	High/Ask	Low/Bid
1st Quarter	**$26.11**	**$24.59**	$27.80	$25.50
2nd Quarter	**$26.05**	**$23.70**	$28.05	$25.31
3rd Quarter	**$24.97**	**$23.80**	$28.70	$27.00
4th Quarter	**$26.09**	**$23.82**	$28.10	$24.37

Information regarding Securities Authorized for Issuance Under Equity Compensation Plans is set forth in the table below.

EQUITY COMPENSATION PLAN BENEFIT INFORMATION

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders			
KESOP (1)	40,388	$11.25	29,101
Restricted Stock Plan (2)	—	N/A	121,905
Equity compensation plans not approved by security holders			
1998 Option Plan (3)	107,000	$27.13	—
Total	147,388	$22.78	151,006

NOTES: (also see Note 2 to the Consolidated Financial Statements)

(1) The KESOP was approved by shareholders in July 1989. Options were granted between January 1989 and November 1997.

(2) The Restricted Stock Plan was approved by shareholders in April 2003. 10,600 shares of restricted stock were awarded to Plan participants in May 2003; 10,700 shares of restricted stock were awarded to Plan participants in April 2004; 10,900 shares of restricted stock were awarded to Plan participants

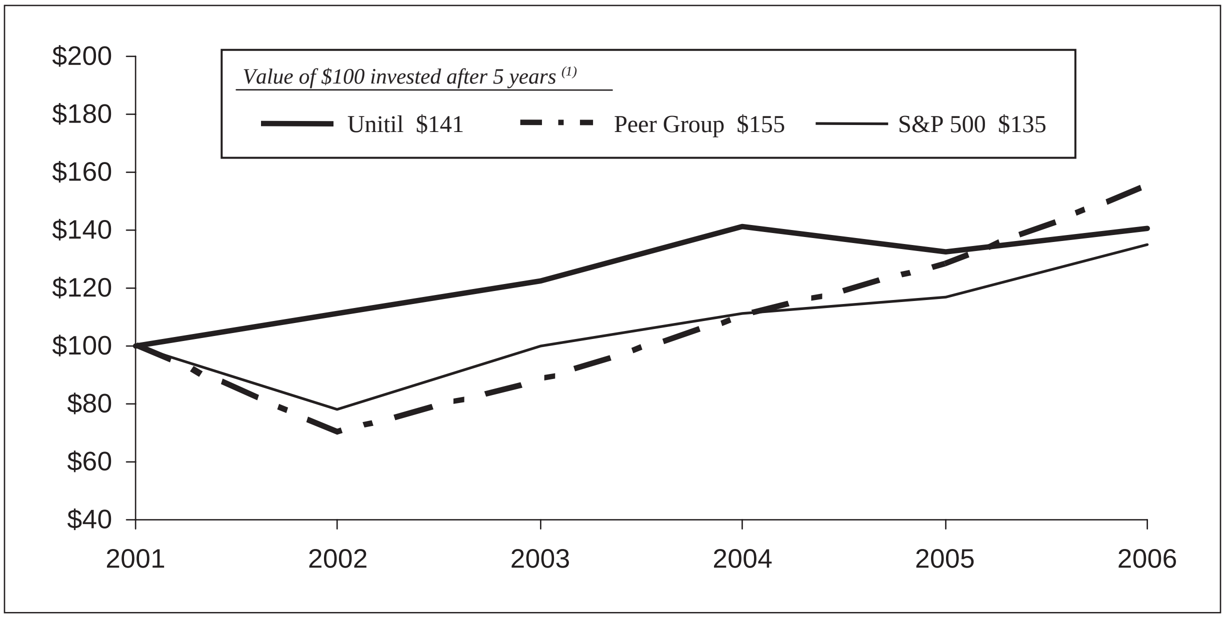
in March 2005; 14,375 shares of restricted stock were awarded to Plan participants in February 2006; 9,020 shares of restricted stock were awarded to Plan participants in February 2007.

(3) The 1998 Option Plan was adopted by the Board of Directors of the Company in December 1998. At the time of adoption, the 1998 Option Plan was not required, under American Stock Exchange rules, to obtain shareholder approval. Options were granted in March 1999, January 2000, and January 2001. On January 16, 2003, the Board of Directors terminated the Option Plan upon the recommendation of the Compensation Committee. In April 2004, the 177,500 remaining registered and ungranted shares in the Option Plan were deregistered with the Securities and Exchange Commission. The Option Plan will remain in effect solely for the purposes of the continued administration of all options currently outstanding under the Option Plan. No further grants of options will be made thereunder.

Stock Performance Graph

The following graph compares Unitil Corporation's cumulative stockholder return since December 31, 2001 with the Peer Group index, comprised of the S&P Utility Index, and the S&P 500 index. The graph assumes that the value of the investment in the Company's common stock and each index (including reinvestment of dividends) was $100 on December 31, 2001.

Comparative Five-Year Total Returns



NOTES:

(1) The graph above assumes $100 invested on December 31, 2001, in each category and the reinvestment of all dividends during the five-year period. The Peer Group is comprised of the S&P Utility Index.

Unregistered Sales of Equity Securities and Uses of Proceeds

(a) There were no sales of unregistered equity securities by the Company for the fiscal period ended December 31, 2006.

(b) Not applicable.

(c) Issuer repurchases are shown in the table below for the monthly periods noted:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
10/1/06 – 10/31/06	—	—	—	n/a
11/1/06 – 11/30/06	—	—	—	n/a
12/1/06 – 12/31/06	—	—	—	n/a
Total	—	—	—	n/a

(1) Represents Common Stock purchased on the open market related to Board of Director Retainer Fees and Employee Length of Service Awards. Shares are not purchased as part of a specific plan or program and therefore there is no pool or maximum number of shares related to these purchases.

Item 6. Selected Financial Data

For the Years Ended December 31,	2006	2005	2004	2003	2002
(all data in thousands except % and per share data)					
Consolidated Statements of Earnings:					
Operating Revenue	**$ 260,861**	$ 232,145	$ 214,137	$ 220,654	$ 188,386
Operating Income	**15,855**	15,541	15,193	15,449	13,248
(Gain) on Non-Utility Investments, net of tax	**—**	—	—	—	(82)
Other Non-operating Expense (Income)	**(19)**	147	193	(40)	185
Income Before Interest Expense, net	**15,874**	15,394	15,000	15,489	13,145
Interest Expense, net	**7,841**	6,841	6,774	7,531	7,057
Net Income	**8,033**	8,553	8,226	7,958	6,088
Dividends on Preferred Stock	**133**	156	215	236	253
Earnings Applicable to Common Shareholders	**$ 7,900**	$ 8,397	$ 8,011	$ 7,722	$ 5,835
Balance Sheet Data:					
Utility Plant (Original Cost)	**$ 352,999**	$ 324,967	$ 308,054	$ 288,657	$ 272,402
Total Assets	**$ 483,427**	$ 450,081	$ 457,010	$ 483,877	$ 481,702
Capitalization:					
Common Stock Equity	**$ 97,775**	$ 96,283	$ 94,291	$ 92,805	$ 74,350
Preferred Stock	**2,083**	2,327	2,338	3,269	3,322
Long-Term Debt, less current portion	**140,028**	125,365	110,675	110,961	104,226
Total Capitalization	**$ 239,886**	$ 223,975	$ 207,304	$ 207,035	$ 181,898
Current Portion of Long-Term Debt	**$ 336**	$ 308	$ 285	$ 3,263	$ 3,243
Short-term Debt	**$ 26,000**	$ 18,700	$ 25,675	$ 22,410	$ 35,990
Capital Structure Ratios:					
Common Stock Equity	**41%**	43%	46%	45%	41%
Preferred Stock	**1%**	1%	1%	2%	2%
Long-Term Debt	**58%**	56%	53%	53%	57%
Earnings Per Share Data:					
Earnings Per Average Share—Basic and Diluted	**$ 1.41**	$ 1.51	$ 1.45	$ 1.58	$ 1.23
Common Stock Data:					
Shares of Common Stock—Diluted (Average)	**5,612**	5,568	5,525	4,896	4,762
Dividends Paid Per Share	**$ 1.38**	$ 1.38	$ 1.38	$ 1.38	$ 1.38
Book Value Per Share (Year-End)	**$ 17.30**	$ 17.21	$ 17.00	$ 16.87	$ 15.67
Electric and Gas Sales:					
Electric Distribution Sales (kWh)	**1,751,544**	1,790,405	1,742,131	1,717,664	1,659,136
Firm Natural Gas Distribution Sales (Therms)	**26,356**	24,332	23,151	24,592	22,480

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) (Note references are to Notes to the Consolidated Financial Statements in Item 8.)

OVERVIEW

Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil's principal business is the retail distribution of electricity and natural gas through two utility subsidiaries: Unitil Energy System's Inc. (UES) and Fitchburg Gas and Electric Light Company (FG&E). UES is an electric utility with an operating franchise in the southeastern seacoast and capital city areas of New Hampshire. FG&E is a combination gas and electric utility with an operating franchise in the greater Fitchburg area of north central Massachusetts.

Unitil's two retail distribution utilities serve approximately 99,300 electric customers and 15,000 natural gas customers in their franchise areas. The retail distribution companies are local "pipes and wires" utilities with a combined investment in net utility plant of $231.8 million at December 31, 2006. Unitil's total revenue was $260.9 million in 2006. Earnings applicable to common shareholders for 2006 was $7.9 million. Substantially all of Unitil's revenue and earnings are derived from regulated utility operations.

Unitil also conducts non-regulated operations principally through its Usource subsidiary. Usource provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Usource's total revenues were $2.4 million in 2006. Unitil's other subsidiaries include Unitil Service and Unitil Realty, which provide centralized facilities, management and administrative services to Unitil's affiliated companies. Unitil's consolidated net income includes the earnings of the holding company and these subsidiaries.

CAUTIONARY STATEMENT

This report and the documents we incorporate by reference into this report contain statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included or incorporated by reference into this report, including, without limitation, statements regarding the financial position, business strategy and other plans and objectives for the Company's future operations, are forward-looking statements.

These statements include declarations regarding the Company's beliefs and current expectations. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. These forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the risks and uncertainties include the following:

- Variations in weather;
- Changes in the regulatory environment;
- Customers' preferences on energy sources;
- Interest rate fluctuation and credit market concerns;
- General economic conditions;
- Fluctuations in supply, demand, transmission capacity and prices for energy commodities;
- Increased competition; and
- Customers' future performance under multi-year energy brokering contracts.

Many of these risks are beyond the Company's control. Any forward-looking statements speak only as of the date of this report, and the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for the Company to predict all of these factors, nor can the Company assess the impact of any such factor on its business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements.

See also Item 1A. Risk Factors.

RESULTS OF OPERATIONS

The following section of MD&A compares the results of operations for each of the three fiscal years ended December 31, 2006, 2005 and 2004 and should be read in conjunction with the accompanying Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in Item 8 of this report.

Net Income and EPS Overview

The Company's Earnings Applicable to Common Shareholders (Net Income) was $7.9 million for 2006. Earnings per common share were $1.41 for 2006 compared to $1.51 for 2005. Earnings in 2006 reflect lower electric and gas sales. The lower sales in 2006 were primarily driven by milder weather compared to 2005. Earnings in 2006 also reflect higher operating and maintenance expenses and interest costs. Partially offsetting these factors was an increase in electric distribution rates in 2006 for Unitil's utility subsidiary in New Hampshire and increased gas delivery sales under a new contract with a large industrial customer in Massachusetts.

During the fourth quarter of 2006, the Company received final approval of a rate settlement that increased base distribution rates by about $3.1 million on an annualized basis for its electric utility operations in New Hampshire. The Company also recently received approval of a gas base rate settlement in Massachusetts for its gas distribution operations, which will phase-in rate increases of $1.2 million as of February 1, 2007, and an additional $1.0 million increase on November 1, 2007. Together these rate settlements represent an increase of about 10% on Unitil's consolidated electric and gas distribution revenues.

Total electric sales decreased 2.2% in 2006 compared to 2005. This decrease reflects significantly milder weather in 2006 and overall lower average monthly energy usage by customers.

Total sales of natural gas increased 8.6% in 2006 compared to 2005, primarily due to a new transportation sales contract with a large industrial customer. Absent the sales from this new contract, total gas sales were approximately 10.7% lower in 2006 compared to 2005. These lower gas sales also reflect the significantly milder winter weather in 2006. The weather in the Company's service territories in the winter of 2006 was approximately 12% warmer than in the same period for 2005, reflecting a record warm winter heating season.

Total electric and gas sales margin decreased $1.3 million in 2006 compared to 2005. The decline in average energy usage by customers, which was primarily driven by milder weather, negatively impacted total electric and gas sales margin by $1.7 million. This negative impact on electric and gas sales margin was partially offset by $0.4 million, net, due to changes in electric rates in 2006 compared to 2005, gas delivery sales under a new transportation contract with a large industrial customer, and higher revenues from Usource.

Total Operations & Maintenance expense increased $1.2 million in 2006 compared to 2005. This increase reflects higher retiree and employee benefit costs of $0.8 million, higher salaries and compensation expenses of $0.7 million and an increase in all other operating expenses of $0.2 million, net, partially offset by lower outside services expenses and professional fees of $0.5 million.

Depreciation, Amortization, Taxes and Other decreased $2.8 million in 2006 compared to 2005, due to lower amortization on regulatory assets and lower utility plant depreciation rates resulting from the New Hampshire rate settlement, partially offset by increased depreciation on utility plant additions and higher property and payroll taxes.

Interest Expense, Net increased $1.1 million in 2006 compared to 2005 due to higher borrowings and interest rates compared to last year.

Usource, our non-regulated energy brokering business, recorded revenues of $2.4 million in 2006, an increase of $0.4 million over 2005. Usource's revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource. The Company will also realize future fees estimated at the end of December 2006 of $6.0 million from executed energy supply term contracts running from 2007 through 2011.

The Company's Net Income was $8.4 million for 2005, an increase of $0.4 million, or 4.8%, compared to 2004. Earnings per common share were $1.51 for 2005, an increase of $0.06 per share compared with earnings of $1.45 per share for 2004. Compared to 2004, earnings for 2005 reflect higher electric sales, driven by customer growth and hotter summer weather in 2005, and higher gas sales reflecting a new contract with a large industrial customer.

In 2006, Unitil's annual common dividend was $1.38, representing an unbroken record of quarterly dividend payments since trading began in Unitil's common stock. At its January, 2007 meeting, the Unitil Board of Directors declared a quarterly dividend on the Company's common stock of $0.345 per share.

Per Share Data	2006	2005	2004
Earnings per Common Share	**$1.41**	$1.51	$1.45
Annual Dividend	**$1.38**	$1.38	$1.38

A more detailed discussion of the Company's 2006 results of operations and a year-to-year comparison of changes in financial position are presented below.

Balance Sheet

The Company's investment in Net Utility Plant increased by $18.5 million in 2006 compared to 2005. This increase was due to capital expenditures related to UES' and FG&E's electric and gas distribution systems and expenditures of approximately $7.3 million for the Company's Advanced Metering Infrastructure (AMI) project. AMI involves the integration of communication technology with metering technology to facilitate two-way communication between the utility and customer equipment. This technology is designed to provide more frequent, time-based metering information, enabling the recording and retrieval of interval metering data on at least an hourly basis.

Regulatory Assets increased $19.1 million in 2006 compared to 2005, primarily reflecting the recording of Regulatory Assets for Retirement Benefit Obligations in accordance with newly issued Federal Accounting Standards Board (FASB) Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", (SFAS No. 158) (See Note 8) and the recording of a Regulatory Asset for future environmental remediation obligations associated with the Company's former manufactured gas plant site at Sawyer Passway, located in Fitchburg, Massachusetts (See Note 5), partially offset by a decrease in Regulatory Assets related to current year cost recoveries.

Long-Term Debt increased $14.7 million in 2006 compared to 2005 reflecting the issuance and sale on September 26, 2006 by UES of $15.0 million of Series O 6.32% First Mortgage Bonds, due September 15, 2036, to institutional investors in the form of a private placement.

Deferred Income Taxes decreased $17.8 million in 2006 compared to 2005 primarily reflecting the recording of deferred tax assets related to Retirement Benefit Obligations, discussed below.

Retirement Benefit Obligations increased $38.4 million in 2006 compared to 2005 primarily reflecting the recording of pension, PBOP and SERP obligations.

Environmental Obligations increased $12.0 million in 2006 compared to 2005 reflecting the recording of a liability for future environmental remediation obligations associated with the Company's former manufactured gas plant site at Sawyer Passway, discussed above.

Sales

Kilowatt-hour Sales—The following table details total kWh sales for the last three years by major customer class:

kWh Sales (millions)

				2006 vs. 2005		2005 vs. 2004	
	2006	**2005**	**2004**	**Change**	**Change %**	**Change**	**Change %**
Residential	**672.2**	688.3	652.8	(16.1)	(2.3%)	35.5	5.4%
Commercial / Industrial	**1,079.3**	1,102.1	1,089.3	(22.8)	(2.1%)	12.8	1.2%
Total	**1,751.5**	1,790.4	1,742.1	(38.9)	(2.2%)	48.3	2.8%

Unitil's total kWh sales decreased 2.2% in 2006 compared to 2005. This decrease reflects a decline in average energy usage per customer, primarily due to significantly milder weather. The weather in the Company's service territories in the winter of 2006 was approximately 12% warmer than in the same period for 2005, resulting in lower consumption of electricity for heating related purposes. During the summer of 2006 the weather in the Company's service territories was approximately 11% cooler than in the same period for 2005, resulting in lower consumption of electricity for air conditioning purposes.

Unitil's total kWh sales increased 2.8% in 2005 compared to 2004. This increase reflects growth in sales to residential and commercial customers primarily due to hotter summer weather and an increase in the number of customers served in 2005 than in 2004.

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

Firm Therm Sales (millions)

				2006 vs. 2005		2005 vs. 2004	
	2006	**2005**	**2004**	**Change**	**Change %**	**Change**	**Change %**
Residential	**9.8**	11.0	11.3	(1.2)	(10.9%)	(0.3)	(2.7%)
Commercial / Industrial	**16.6**	13.3	11.8	3.3	24.8%	1.5	12.7%
Total	**26.4**	24.3	23.1	2.1	8.6%	1.2	5.2%

Unitil's total firm therm sales of natural gas increased 8.6% in 2006 compared to 2005, due to a new gas transportation sales contract with a large industrial customer. Sales to residential customers decreased 10.9% in 2006 compared to 2005 due to a milder winter heating season in 2006 compared to the prior year.

Sales to C&I customers increased 24.8% in 2006 compared to 2005. Absent the sales from the new contract, discussed above, sales to C&I customers were 10.4% lower in 2006 compared to 2005 primarily due to a milder winter heating season. The weather in the Company's service territories in the winter of 2006 was approximately 12% warmer than in the same period for 2005, and the region as a whole experienced a record warm winter heating season.

In 2005, total firm therm sales of natural gas increased 5.2% compared to 2004, due to the new sales contract with a large industrial customer, discussed above. Sales to residential customers decreased 2.7% in 2005 compared to 2004 due to a milder winter heating season in 2005 compared to the prior year. Sales to C&I customers increased 12.7% in 2005 compared to 2004. Absent the sales from the new contract discussed above, sales to C&I customers were 3.4% lower in 2005 compared to 2004 due to lower natural gas usage by our largest customers.

Utility Revenues and Margin

Electric Operating Revenues—The following table details total Electric Operating Revenue and Sales Margin for the last three years by major customer class:

Electric Operating Revenues and Sales Margin (millions)

				2006 vs. 2005		2005 vs. 2004	
	2006	**2005**	**2004**	**$ Change**	**% Change[1]**	**$ Change**	**% Change[1]**
Electric Operating Revenue:							
Residential	**$102.6**	$ 82.2	$ 75.7	$20.4	10.3%	$ 6.5	3.5%
Commercial / Industrial	**122.6**	115.1	108.2	7.5	3.8%	6.9	3.8%
Total Electric Operating Revenue	**$225.2**	$197.3	$183.9	$27.9	14.1%	$13.4	7.3%
Cost of Electric Sales:							
Purchased Electricity	**$167.3**	$138.1	$125.9	$29.2	14.8%	$12.2	6.7%
Conservation & Load Management	**3.6**	3.8	3.5	(0.2)	(0.1%)	0.3	0.1%
Electric Sales Margin	**$ 54.3**	$ 55.4	$ 54.5	$ (1.1)	(0.6%)	$ 0.9	0.5%

(1) Represents change as a percent of Total Electric Operating Revenue.

Total Electric Operating Revenues increased by $27.9 million, or 14.1%, in 2006 compared to 2005. Total Electric Operating Revenues include the recovery of costs of electric sales, which are recorded as Purchased Electricity and Conservation & Load Management (C&LM) in Operating Expenses. The net increase in Total Electric Operating Revenues in 2006 reflects higher Purchased Electricity costs of $29.2 million, offset by lower sales margin of $1.1 million and lower C&LM revenues of $0.2 million.

Purchased Electricity and C&LM revenues increased a net $29.0 million, or 14.7%, of Total Electric Operating Revenues in 2006 compared to 2005, reflecting higher electric commodity prices. Purchased Electricity revenues include the recovery of the cost of electric supply as well as other energy supply related restructuring costs, including long-term power supply contract buyout costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. The Company recovers the cost of Purchased Electricity and C&LM in its rates at cost on a pass through basis.

Electric sales margin was lower by $1.1 million in 2006 compared to 2005, reflecting a decrease in revenue of $3.2 million related to the expiration of the Seabrook Amortization Surcharge (SAS) in late 2005. This decrease in SAS revenue is largely matched with a corresponding decrease in amortization expenses on Regulatory Assets, and therefore has no material impact on net income (see discussion on Depreciation and Amortization below). Absent the decrease in SAS revenues, electric sales margin increased $2.1 million in 2006 compared to 2005. The higher sales margin in 2006 primarily reflects the

Company's recently approved base rate increase in New Hampshire of $2.7 million, partially offset by lower sales margin of $0.6 million resulting from a decline in average energy usage per customer, primarily due to significantly milder weather.

In 2005, Total Electric Operating Revenues increased by $13.4 million, or 7.3%, compared to 2004. The net increase in Total Electric Operating Revenues in 2005 reflects higher Purchased Electricity costs of $12.2 million and higher C&LM revenues of $0.3 million and higher sales margin of $0.9 million. Purchased Electricity and C&LM revenues increased a combined $12.5 million, or 6.8%, of Total Electric Operating Revenues in 2005 compared to 2004, reflecting higher electricity unit sales and higher electric commodity prices and increased spending on energy efficiency programs. Electric sales margin increased by $0.9 million in 2005 compared to 2004, primarily reflecting increased kWh unit sales and higher base rates, partially offset by the expiration of the SAS in 2005, as discussed above.

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

Gas Operating Revenues and Sales Margin (millions)

				2006 vs. 2005		2005 vs. 2004	
	2006	**2005**	**2004**	**$ Change**	**% Change[1]**	**$ Change**	**% Change[1]**
Gas Operating Revenue:							
Residential	**$18.0**	$19.0	$16.3	$(1.0)	(3.1%)	$ 2.7	9.4%
Commercial / Industrial	**12.9**	13.7	12.3	(0.8)	(2.4%)	1.4	4.9%
Total Firm Gas Revenue	**$30.9**	$32.7	$28.6	$(1.8)	(5.5%)	$ 4.1	14.3%
Interruptible Gas Revenue	**2.4**	0.1	0.1	2.3	7.0%	—	—
Total Gas Operating Revenue	**33.3**	32.8	28.7	0.5	1.5%	4.1	14.3%
Cost of Gas Sales:							
Purchased Gas	**$22.4**	$21.2	$17.5	$ 1.2	3.7%	$ 3.7	12.9%
Conservation & Load Management	**0.2**	0.3	0.5	(0.1)	(0.4%)	(0.2)	(0.7%)
Gas Sales Margin	**$10.7**	$11.3	$10.7	$(0.6)	(1.8%)	$ 0.6	2.1%

(1) Represents change as a percent of Total Gas Operating Revenue.

Total Gas Operating Revenues increased $0.5 million, or 1.5%, in 2006 compared to 2005. Total Gas Operating Revenues include the recovery of the cost of sales, which are recorded as Purchased Gas and C&LM in Operating Expenses. The net increase in Total Gas Operating Revenues in 2006 reflects higher Purchased Gas costs of $1.2 million, offset by lower sales margin of $0.6 million and lower C&LM revenues of $0.1 million.

Purchased Gas and C&LM revenues increased a net $1.1 million, or 3.3%, of Total Gas Operating Revenues in 2006 compared to 2005, reflecting higher gas commodity prices and higher unit sales during those periods. Purchased Gas revenues include the recovery of the cost of gas supply as well as the other energy supply related costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. The Company recovers the cost of Purchased Gas and C&LM in its rates at cost on a pass through basis.

Gas sales margin for 2006 decreased $0.6 million compared to 2005. In the third quarter of 2005, the Company entered into a new gas sales contract with a large industrial customer which resulted in an increase in gas sales margin of $0.5 million in 2006 compared to 2005. Prior to the fourth quarter of 2006, the Company had recorded revenue from this contract on a reduced basis, pending the resolution of a margin sharing proceeding by the MDTE. As part of a settlement agreement with the MDTE for FG&E's gas division, the Company is allowed to earn the full margin associated with this contract. As a result, the

Company recognized $0.2 million of gas margin in the fourth quarter of 2006 which had been deferred pending a decision by the MDTE. Absent the gas sales margin from this contract, gas sales margin decreased $1.1 million in 2006 compared to 2005. This decline in gas sales margin was due to lower therm sales, which, absent the sales from the new contract were 10.8% lower in 2006 compared to 2005. The lower gas sales were primarily due to a milder winter heating season. The weather in the Company's service territories in the winter of 2006 was approximately 12% warmer than in the same period for 2005, reflecting a record warm winter heating season.

In 2005, Total Gas Operating Revenues increased $4.1 million, or 14.3%, compared to 2004. The net increase in Total Gas Operating Revenues in 2005 reflects higher Purchased Gas costs of $3.7 million and higher sales margin of $0.6 million, partially offset by lower C&LM revenues of $0.2 million.

Purchased Gas and C&LM revenues increased a net $3.5 million, or 12.2%, of Total Gas Operating Revenues in 2005 compared to 2004, reflecting higher gas commodity prices, higher unit sales and lower spending on energy efficiency programs that were implemented during those periods. Gas sales margin for 2005 increased $0.6 million compared to 2004. This increase in gas sales margin was attributable to an increase in firm therm sales and higher rates authorized by regulators to recover certain post retirement benefit costs.

Non-regulated Revenues

Total Other Revenue increased $0.4 million in 2006 compared to 2005 and $0.4 million in 2005 compared to 2004. These increases were the result of growth in revenues from the Company's non-regulated energy brokering business, Usource. Usource's revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource. The Company will also realize future fees, estimated at December 31, 2006, of $6.0 million from executed energy supply contracts running 2007 through 2011.

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

Other Revenue (millions)

				2006 vs. 2005		2005 vs. 2004	
	2006	**2005**	**2004**	**$ Change**	**% Change**	**$ Change**	**% Change**
Usource	**$2.4**	$2.0	$1.6	$0.4	20.0%	$0.4	25.0%
Total Other Revenue	**$2.4**	$2.0	$1.6	$0.4	20.0%	$0.4	25.0%

Operating Expenses

Purchased Electricity—Purchased Electricity includes the cost of electric supply as well as other energy supply related restructuring costs, including power supply buyout costs. Purchased Electricity increased $29.2 million, or 21.1%, in 2006 compared to 2005, reflecting higher electric commodity prices. The Company recovers the costs of Purchased Electricity in its rates at cost and therefore changes in these expenses do not affect earnings.

In 2005, Purchased Electricity expenses increased $12.2 million, or 9.7%, compared to 2004 due primarily to higher electric commodity prices.

Purchased Gas—Purchased Gas includes the cost of natural gas purchased and manufactured to supply the Company's total gas supply requirements. Purchased Gas increased $1.2 million, or 5.6%, in 2006 compared to 2005. The increase in Purchased Gas is attributable to increased therm sales and higher gas commodity costs. The Company recovers the costs of Purchased Gas in its rates at cost on a pass through basis and therefore changes in these expenses do not affect Net Income.

In 2005, Purchased Gas increased by $3.7 million, or 21.4%, compared to 2004, reflecting increased therm sales and higher natural gas commodity costs.

Operation and Maintenance (O&M)—O&M expense includes electric and gas utility operating costs, and the operating cost of the Company's non-regulated business activities. Total O&M expense increased $1.2 million, or 3.3%, in 2006 compared to 2005. This increase reflects higher retiree and employee benefit costs of $0.8 million, driven by higher medical claims, higher salaries and compensation expenses of $0.7 million, due to normal annual increases, and an increase in all other operating expenses of $0.2 million, net, offset by lower outside services expenses and professional fees of $0.5 million.

In 2005, total O&M expense increased $1.2 million, or 5.2%, compared to 2004, reflecting higher salaries and compensation expenses of $0.6 million, higher retiree and employee benefit costs of $0.5 million, higher audit fees of $0.2 million, higher utility operating and maintenance expenses $0.1 million and higher bad debt expenses of $0.1 million, partially offset by lower administrative and general expenses of $0.3 million.

Conservation & Load Management—Conservation and Load Management expenses are expenses associated with the development, management, and delivery of the Company's energy efficiency programs. Energy efficiency programs are designed, in conformity to state regulatory requirements, to help consumers use natural gas and electricity more efficiently and thereby decrease their energy costs. Programs are tailored to residential, small business and large business customer groups and provide educational materials, technical assistance, and rebates that contribute toward the cost of purchasing and installing approved measures. Approximately 90% of these costs are related to electric operations and 10% to gas operations.

Total Conservation & Load Management expenses decreased slightly, by $0.4 million, in 2006 compared to 2005. These costs are collected from customers on a fully reconciling basis and therefore, fluctuations in program costs do not affect earnings.

Total Conservation & Load Management expenses increased $0.1 million, in 2005 compared to 2004.

Depreciation and Amortization—Depreciation and Amortization expense decreased $3.1 million, or 16.0%, in 2006 compared to 2005, reflecting lower amortization on regulatory assets, including Seabrook Station, $3.3 million, and lower depreciation rates on utility plant resulting from the NHPUC's order in UES' base rate case, $0.6 million, partially offset by depreciation on utility plant additions, $0.8 million. The Company's regulatory asset related to its former abandoned property investment in Seabrook Station became fully-amortized in the third quarter of 2005. The lower amortization on Seabrook Station is largely matched with a corresponding decrease in SAS revenues and therefore has no material impact on net income (see discussion of Electric Operating Revenues above).

In 2005, Depreciation and Amortization expense increased $0.3 million, or 1.6%, compared to 2004, reflecting higher depreciation on normal utility plant additions, partially offset by lower amortization in 2005 on the Company's regulatory assets related to its former abandoned property investment in Seabrook Station, discussed above.

Local Property and Other Taxes—Local Property and Other Taxes increased by $0.3 million, or 5.4%, in 2006 compared to 2005. This increase was due to higher local property tax rates on higher levels of utility plant in service and higher payroll taxes.

In 2005, Local Property and Other Taxes increased by less than $0.1 million, or 0.7% compared to 2004. This increase was due to higher local property tax rates on higher levels of utility plant in service.

Federal and State Income Taxes—Federal and State Income Taxes were essentially flat in 2006 compared to 2005 due to lower pre-tax operating income in 2006 compared to 2005 offset by a higher effective tax rate in 2006 related to the Company's former abandoned property investment in Seabrook Station, discussed above. Federal and State Income Taxes increased $0.1 million, or 1.6%, in 2005 compared to 2004 reflecting higher pre-tax operating income year over year.

Other Non-operating Expenses (Income)

Other Non-operating Expenses (Income) improved to income of $19,000 in 2006 compared to an expense of $147,000 in 2005 due to a gain on the sale of land in Massachusetts and timber harvest revenue recorded in New Hampshire. Other Non-operating expenses of $147,000 in 2005 were $46,000 lower compared to 2004 due to lower jobbing parts expenses and lower donations expenses.

Interest Expense, net

Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. Certain reconciling rate mechanisms used by the Company's distribution operating utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated.

The Company operates a number of reconciling rate mechanisms to recover specifically identified costs on a pass through basis. These reconciling rate mechanisms track costs and revenue on a monthly basis. In any given month, this monthly tracking and reconciling process will produce either an under-collected or an over-collected balance of costs. In accordance with the Company's rate tariff, interest is accrued on these balances and will produce either interest income or interest expense. Interest income is recorded on an under-collection of costs, which creates a regulatory asset to be recovered in future periods when rates are reset. Interest expense is recorded on an over-collection of costs, which creates a regulatory liability to be refunded in future periods when rates are reset.

A summary of interest expense and interest income is provided in the following table:

Interest Expense, net (millions)	2006	2005	2004	2006 vs. 2005 Change	2005 vs. 2004 Change
Interest Expense					
Long-term Debt	**$ 9.5**	$ 8.4	$ 8.5	$ 1.1	$(0.1)
Short-term Debt	**1.5**	1.0	0.5	0.5	0.5
Regulatory Liabilities	**0.3**	0.2	0.1	0.1	0.1
Subtotal Interest Expense	**11.3**	9.6	9.1	1.7	0.5
Interest Income					
Regulatory Assets	**(3.1)**	(2.6)	(2.3)	(0.5)	(0.3)
AFUDC and Other	**(0.4)**	(0.2)	—	(0.2)	(0.2)
Subtotal Interest Income	**(3.5)**	(2.8)	(2.3)	(0.7)	(0.5)
Total Interest Expense, net	**$ 7.8**	$ 6.8	$ 6.8	$ 1.0	$ —

In 2006, Total Interest Expense, Net increased by $1.0 million compared to 2005. Interest expense on long-term borrowings increased due to the issuance of new fixed rate long-term debt. Unitil's New Hampshire subsidiary, UES, issued and sold $15 million of Series O, 6.32% First Mortgage Bonds to institutional investors on September 26, 2006. In December 2005, Unitil's Massachusetts utility subsidiary, FG&E, issued $15 million of unsecured long-term notes to institutional investors at an interest rate of 5.90%. The proceeds from these long-term financings were used principally to finance utility plant additions that had been previously financed on an interim basis with short-term bank borrowings. Interest expense on short-term debt increased compared to 2005 primarily due to higher variable short-term interest rates. These increases in interest expense were partially offset by an increase in interest income due to higher carrying charges on regulatory assets.

In 2005, Interest Expense, Net, increased by less than $0.1 million compared to 2004. The net change in Interest Expense, Net, reflects higher variable interest costs on short-term debt, partially offset by higher interest income from carrying charges on regulatory assets. A rise in bank borrowing rates and average daily bank borrowings during 2005 drove Interest Expense on short-term debt.

LIQUIDITY, COMMITMENTS AND CAPITAL REQUIREMENTS

Sources of Capital

Unitil requires capital to fund utility plant additions, working capital and other utility expenditures recovered in subsequent and future periods through regulated rates. The capital necessary to meet these requirements is derived primarily from internally-generated funds, which consist of cash flows from operating activities, excluding payment of dividends. The Company initially supplements internally generated funds through bank borrowings, as needed, under unsecured short-term bank lines. At December 31, 2006, Unitil had an aggregate of $40.0 million in unsecured revolving lines of credit with three banks. On January 1, 2007, Unitil's bank lines of credit increased to $41.0 million with the same three banks. The Company anticipates that it will be able to secure renewal or replacement of some or all of its revolving lines of credit, in accordance with projected requirements. The Company had short-term debt outstanding through bank borrowings of $26.0 million and $18.7 million at December 31, 2006 and December 31, 2005, respectively. In addition, Unitil had approximately $4.6 million in cash at December 31, 2006. Periodically, the Company replaces portions of its short-term debt with long-term financings more closely matched to the long-term nature of its utility assets.

The maximum amount of short-term borrowings that may be incurred by Unitil and its subsidiaries has been subject to periodic approval by the SEC under the PUHCA and state regulators of the Company's retail distribution utilities, UES and FG&E. However, in 2005 the PUHCA was repealed. Under the Energy Policy Act of 2005, many regulatory oversight responsibilities of the SEC prior to the repeal of the PUHCA were transferred to the FERC. The FERC's transition rule permits Unitil and its subsidiaries to rely on outstanding SEC orders issued under the PUHCA , including an order related to Unitil's cash pooling and loan arrangement and certain maximum borrowing authorizations to be extended through December 31, 2007. At December 31, 2006, Unitil had regulatory authorization to incur total short-term bank borrowings up to a maximum of $55 million, and UES and FG&E had regulatory authorizations to borrow up to a maximum of $16 million and $35 million, respectively. In 2006, UES and FG&E had average short-term debt outstanding of $9.8 million and $20.8 million, respectively.

Unitil and its subsidiaries are individually and collectively members of the Unitil Cash Pool. The Cash Pool is the financing vehicle for day-to-day cash borrowing and investing. The Cash Pool Agreement allows an efficient exchange of cash among Unitil and its subsidiaries. The interest rates charged to the subsidiaries for borrowing from the Cash Pool are based on Unitil's actual interest costs from its banks under the revolving lines of credit. At December 31, 2006, all Unitil subsidiaries were in compliance with the regulatory requirements to participate in the Cash Pool.

On September 26, 2006, UES issued and sold $15.0 million of Series O 6.32% First Mortgage Bonds, due September 15, 2036, to institutional investors in the form of a private placement (see Note 3). The proceeds from this long-term financing were used principally to permanently finance utility plant additions that had been previously financed on an interim basis with short-term bank borrowings. In December 2005, FG&E issued and sold $15.0 million of 5.90% unsecured long-term notes under a debenture note structure (see Note 3). The proceeds were utilized to repay outstanding short-term indebtedness of FG&E. The Company expects to continue to be able to satisfy its external financing needs by utilizing additional short-term bank borrowings and to periodically replace short-term debt with long-term financings.

The continued availability of these methods of financing, as well as the Company's choice of a specific form of security, will depend on many factors, including, but not limited to: security market conditions; general economic climate; regulatory approvals; the ability to meet covenant issuance restrictions, if any; the level of the Company's earnings, cash flows and financial position; and the competitive pricing offered by financing sources.

Contractual Obligations

The table below lists the Company's significant contractual obligations as of December 31, 2006.

		Payments Due by Period			
Significant Contractual Obligations (000's) as of December 31, 2006	**Total**	**2007**	**2008-2009**	**2010-2011**	**2012 & Beyond**
Long-term Debt	$140,364	$ 336	$ 758	$ 889	$138,381
Capital Lease	442	233	207	2	—
Operating Leases	2,820	456	909	808	647
Power Supply Contract Obligations—MA	49,987	8,001	16,396	16,912	8,678
Power Supply Contract Obligations—NH	42,571	11,870	21,677	5,226	3,798
Gas Supply Contracts	16,128	12,967	1,855	1,216	90
Total Contractual Cash Obligations	**$252,312**	**$33,863**	**$41,802**	**$25,053**	**$151,594**

The Company has material energy supply commitments that are discussed in Note 4. Cash outlays for the purchase of electricity and natural gas to serve our customers are subject to full recovery through periodic changes in rates, with carrying charges on deferred balances. From year to year, there are likely to be timing differences associated with the cash recovery of such costs, creating under- or over-recovery situations at any point in time. Rate recovery mechanisms are typically designed to collect the under-recovered cash or refund the over collected cash over subsequent 6-12 month periods.

The Company also provides limited guarantees on certain electric supply contracts entered into by the retail distribution utilities. The Company's policy is to limit these guarantees to two years or less. As of December 31, 2006 there are $7.0 million of guarantees outstanding and these guarantees extend through October 8, 2008.

Benefit Plan Funding

In 2006 the Company and its subsidiaries made cash contributions to its pension plan in the amount of $2.5 million. In 2006 and 2005, the Company and its subsidiaries contributed approximately $2.2 million and $2.5 million, respectively to the Voluntary Employee Benefit Trusts (VEBT) and expects to continue to make contributions to the VEBT's in future years in amounts consistent with the amounts recovered in retail distribution utility rates for these other postretirement benefit costs.

Off-Balance Sheet Arrangements

The Company does not currently use, and is not dependent on the use of off-balance sheet financing arrangements, such as securitization of receivables, or obtaining access to assets or cash through special purpose entities or variable interest entities. The Company does have an operating lease agreement with a major financial institution. The operating lease is used to finance the Company's utility vehicles. (See Note 3).

Cash Flows

	2006	2005
Cash Provided by Operating Activities (000's)	**$20,373**	$24,076

Cash Provided by Operating Activities—Cash Provided by Operating Activities was $20.4 million in 2006, a decrease of $3.7 million compared to 2005. Sources of cash from Net Income were lower by $0.5 million compared to last year and sources of cash from Depreciation and Amortization were lower by approximately $3.1 million in 2006 compared to 2005, primarily due to the lower amortization of the Seabrook regulatory asset. Working capital related cash flows decreased $6.0 million in 2006 compared to 2005. Major uses of cash working capital were due to: Accrued Revenue, which decreased by $5.7 million year over year principally due to the recording of a temporary rate deferral in 2006 that will be fully collected before the end of 2007 and Accounts Payable, which decreased by $5.1 million compared to last year reflecting a higher level of funding of energy costs and other operating expenses in 2006. Major sources of cash working capital were due to Accounts Receivable collection, which provided $6.6 million over 2005 due to improved cash remittance activity. Sources of cash related to Deferred Restructuring Costs increased by $5.4 million in 2006 as compared to 2005, reflecting improvement in net cash flows for the collection of deferred costs related to utility industry restructuring. All other changes in cash flows from operating activities were a net increase of $0.5 million in sources of cash in 2006 compared to 2005.

	2006	2005
Cash (Used in) Investing Activities (000's)	**$(33,642)**	$(24,367)

Cash (Used in) Investing Activities—Cash (Used in) Investing Activities increased by $9.3 million in 2006 compared to 2005. Cash used in investing activities is primarily for capital expenditures related to UES' and FG&E's electric and gas distribution systems. Capital expenditures are projected to be $32.4 million in 2007, reflecting normal electric and gas utility system additions and expenditures for the last phase of the Company's AMI project, discussed above.

	2006	2005
Cash Provided by (Used in) Financing Activities (000's)	**$14,618**	$ 466

Cash Provided by (Used in) Financing Activities—Cash Provided by (Used in) Financing Activities was $14.6 million in 2006. Cash was provided by financing proceeds from the issuance and sale of $15.0 million of First Mortgage Bonds by UES; short-term borrowings of $7.3 million from Unitil's banks; and the issuance and sale of $1.0 million of Unitil's Common Stock. Cash Used in Financing Activities reflects $7.9 million in Common and Preferred dividends paid; retirement of $0.3 million of preferred stock; and to repay long-term debt and capital leasing obligations, amounting to $0.5 million.

On September 26, 2006, UES completed the sale of $15.0 million of Series O First Mortgage Bonds through a private placement to institutional investors. The bonds have a term of 30 years and a coupon rate of 6.32%.

In 2005, Cash Provided by (Used in) Financing activities was $0.5 million. Cash was provided by financing proceeds from the issuance and sale of $15.0 million of long-term notes by FG&E and $1.0 million of Common Stock. Cash Used in Financing Activities included the payment of dividends amounting to $7.8 million and repayment of $7.0 million of short-term bank indebtedness.

On December 21, 2005, FG&E completed the sale of $15.0 million of unsecured long-term notes through a private placement to institutional investors. The notes have a term of 25 years and a coupon rate of 5.90%.

FINANCIAL COVENANTS AND RESTRICTIONS

The agreements under which the long-term debt of the retail distribution utilities, UES and FG&E, were issued contain various covenants and restrictions. These agreements do not contain any covenants or restrictions pertaining to the maintenance of financial ratios or the issuance of short-term debt. These agreements do contain covenants relating to, among other things, the issuance of additional long-term debt, cross-default provisions and business combinations, as described below.

UES utilizes a First Mortgage Bond (FMB) structure of long-term debt. In order to issue new FMB securities, the customary covenants of the existing Indenture Agreement must be met, including that UES have sufficient available net bondable plant to issue the securities and projected earnings available for interest charges equal to at least two times the annual interest requirement. The Indenture Agreements further require that if UES defaults on any FMB securities, it would constitute a default for all UES FMB securities. The default provisions are not triggered by the actions or defaults of Unitil or its other subsidiaries.

FG&E utilizes a debenture structure of long-term debt. Accordingly, in order for FG&E to issue new long-term debt, the covenants of the existing long-term agreements must be satisfied, including that FG&E have total funded indebtedness less than 65% of total capitalization and earnings available for interest equal to at least two times the interest charges for funded indebtedness. As with the Indenture Agreements, FG&E's agreements require that if FG&E defaults on any long-term debt agreement, it would constitute a default under all FG&E long-term debt agreements. The FG&E default provisions are not triggered by the actions or defaults of Unitil or its other subsidiaries.

Both the UES and FG&E instruments and agreements contain covenants restricting the ability of each company to incur liens and to enter into sale and leaseback transactions, and restricting the ability of each company to consolidate with, to merge with or into or to sell or otherwise dispose of all or substantially all of its assets.

In addition, the UES and FG&E long-term debt instruments and agreements contain certain restrictions on the payment of common dividends from Retained Earnings. On December 31, 2006, UES and FG&E had unrestricted Retained Earnings of $14.8 million and $7.2 million, respectively, available for the payment of common dividends (See Note 3.) UES and FG&E pay dividends to their sole shareholder, Unitil Corporation, and these dividends are the primary source of cash for the payment of dividends to Unitil shareholders.

Unitil Corporation has no long-term debt outstanding. The long-term debt and preferred stock of UES and FG&E are privately held, and the Company does not issue commercial paper. For these reasons, these securities of Unitil and its subsidiaries are not publicly rated.

DIVIDENDS

Unitil's annualized common dividend was $1.38 per common share in 2006, 2005 and 2004. Unitil's dividend policy is reviewed periodically by the Board of Directors. Unitil has maintained an unbroken record of quarterly dividend payments since trading began in Unitil's common stock. At its January, 2007 meeting, the Unitil Board of Directors declared a quarterly dividend on the Company's common stock of $0.345 per share. The amount and timing of all dividend payments are subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial conditions and other factors.

REGULATORY MATTERS

Overview—Unitil's retail distribution utilities have the franchise to deliver electricity and/or natural gas to all customers in our franchise areas, at rates established under traditional cost of service regulation. Under this regulatory structure, UES and FG&E recover the cost of providing distribution service to their customers based on an historical test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in Massachusetts and New Hampshire, all of Unitil's customers have the opportunity to purchase their electric or natural gas supplies from third-party suppliers. Most small and medium-sized customers, however, continue to purchase such supplies through UES and FG&E as the providers of last resort. UES and FG&E purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual costs of these supplies, without profit or markup, through reconciling, pass-through rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, Unitil Power and FG&E divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. UES and FG&E recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDTE, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next four to six years, is $126.1 million as of December 31, 2006 and is included in Regulatory Assets on the Company's Consolidated Balance Sheet (see Regulatory Assets table in Note 1.) Unitil's retail distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

FG&E—Electric Division—FG&E provides electric distribution service to customers under unbundled distribution rates approved by the MDTE. Its current retail electric distribution rates were approved by the MDTE in 2002. FG&E is required, as the provider of last resort, to purchase and provide power through Default Service for retail customers who chose not to buy, or were unable to purchase, energy from a competitive supplier. Prices for Default Service are set periodically based on market solicitations as approved by the MDTE. As of December 31, 2006, approximately 53 percent of FG&E's electric load was served by Default Service. The remaining portion was served by competitive third party suppliers. The vast majority of customers being served by competitive third party suppliers are large C&I customers. Most residential and small commercial customers continue to purchase their electric supply through the retail distribution utilities. The concentration of the competitive retail market on higher use customers has been a common experience throughout the New England electricity market.

As a result of the restructuring and the divestiture of FG&E's owned generation assets and buyout of FG&E's power supply obligations, Regulatory Assets on the Company's balance sheets include the following three categories: Power Supply Buyout Obligations associated with the divestiture of its long-term purchase power obligations; Recoverable Deferred Restructuring Charges resulting from the restructuring legislation's seven year rate cap; and Recoverable Generation-related Assets associated with the divestiture of its owned generation plant. FG&E earns carrying charges on the majority of the unrecovered balances of the Recoverable Deferred Restructuring Charges. The value of FG&E's Recoverable Deferred Restructuring Charges and Recoverable Generation-related Assets was approximately $33.3 million at December 31, 2006, and $34.4 million at December 31, 2005, and is expected to be recovered in FG&E's rates over the next four to six years. In addition, as of December 31, 2006, FG&E had recorded on its balance sheet $50.0 million as Power Supply Buyout Obligations and corresponding Regulatory Assets associated with the divestiture of its long-term purchase power contracts, which are included in Unitil's consolidated financial statements, and on which carrying charges are not earned as the timing of cash disbursements and cash receipts associated with these long-term obligations is matched through rates (See Note 1.)

On March 7, 2006, the MDTE approved FG&E's 2003 and 2004 annual reconciliation of costs and revenues for Transition, Transmission, Standard Offer Service, and Default Service filed under its restructuring plan. FG&E's 2005 and 2006 filings, which are subject to investigation, are pending. The Company expects that these filings will be approved without material changes or adjustments.

FG&E—Gas Division—FG&E provides natural gas delivery service to its customers on a firm or interruptible basis under unbundled distribution rates approved by the MDTE. Its current retail distribution rates were approved by the MDTE in 2002. FG&E's customers may purchase gas supplies from third-party vendors or purchase their gas from FG&E as the provider of last resort. FG&E collects its gas supply costs through a seasonal reconciling CGAC and recovers other related costs through a reconciling Local Distribution Adjustment Clause.

On January 26, 2007, the MDTE approved a rate Settlement Agreement (Settlement) which FG&E and the Attorney General of Massachusetts had signed and filed with the MDTE for FG&E's Gas Division on November 29, 2006. Under the Settlement, FG&E will phase-in gas distribution rate changes with an initial rate increase of $1.2 million as of February 1, 2007, and an additional $1.0 million increase on November 1, 2007. The Settlement also includes agreement on several other rate matters and service quality performance measures for the company's gas division in the areas of safety, customer service and satisfaction.

On September 7, 2006, the MDTE issued an order allowing FG&E to recover its actual gas and electric supply-related bad debt effective December 1, 2005. Prior to this final approval, FG&E had recovered supply related bad debt based on a fixed rate formula that was resulting in a significant underrecovery of these costs. On September 27, 2006, the Attorney General filed a Petition for Appeal with the Massachusetts Supreme Judicial Court seeking to set aside the MDTE's order of September 7, 2006. FG&E intends to support the MDTE's order but the Company cannot predict the outcome of the Attorney General's appeal at this time.

UES—UES provides electric distribution service to its customers pursuant to rates approved by the NHPUC. Its current retail electric distribution rates were approved by the NHPUC in 2006 under the Settlement Agreement discussed below. As the provider of last resort, UES also provides its customers with electric power through Default Service at rates which reflect UES' costs for wholesale supply with no profit or markup. UES procures Default Service power for its larger commercial and industrial customers on a quarterly basis, and for its smaller commercial and residential customers through a portfolio of longer term contracts on a semi-annual basis. UES recovers its costs for this service on a pass-through basis through reconciling rate mechanisms. As of December 31, 2006, approximately 80 percent of UES' electric load was served by Default Service. The remaining portion was served by competitive third party suppliers. The vast majority of customers being served by competitive third party suppliers are large C&I customers. Most residential and small commercial customers continue to purchase their electric supply through the retail distribution utilities. The concentration of the competitive retail market on higher use customers has been a common experience throughout the New England electricity market.

In the 2002 restructuring settlement, the NHPUC approved the divestiture of the long-term power supply portfolio by Unitil Power and tariffs for UES for stranded cost recovery, including certain charges that are subject to annual or periodic reconciliation or future review. As of December 31, 2006, UES had recorded on its balance sheets $42.6 million as Power Supply Contract Obligations and corresponding Regulatory Assets associated with these long-term purchase power stranded costs, which are included in Unitil Corporation's consolidated financial statements. These Power Supply Contract Obligations are expected to be recovered principally over a period of approximately four years. The Company does not earn carrying charges on these regulatory assets as the timing of cash receipts and cash disbursements associated with these long-term obligations is matched through rates.

On March 17, 2006, UES made its third annual reconciliation and rate filing with the NHPUC under its restructuring plan, effective May 1, 2006, including reconciliation of prior year costs and revenues, power supply and power supply-related stranded costs. The NHPUC approved the filing on April 28, 2006.

On October 6, 2006, UES received approval from the NHPUC of a Settlement Agreement (Agreement) resolving all issues in its electric distribution base rate case filed in November, 2005. The terms of the Agreement provide for an increase in base distribution rates of $2.3 million annually, effective as of January 1, 2006. Additionally, the Agreement authorizes two step increases in base distribution rates, related to utility plant additions in 2006, of approximately $0.4 million and $0.1 million annually, effective as of November 1, 2006 and May 1, 2007, respectively. Also, the Agreement provides for the recovery of approximately $0.3 million annually of supply-related operating and administrative costs through default energy service rates and a reduction of approximately $0.6 million in annual depreciation expense, primarily reflecting an increase in utility plant and equipment average service lives. The stipulated rate of return under the settlement is 8.70%, including a return on equity of 9.67%. The Agreement also authorizes a temporary rate surcharge for recovery of certain rate case expenses and recoupment of the authorized distribution rate increase from January through October 2006.

FERC—Wholesale Power Markets—FG&E, UES and Unitil Power, as well as virtually all New England electric utilities, are participants in ISO New England Inc., the Regional Transmission Organization (RTO) in New England. The regional bulk power system is operated by an independent corporate entity, ISO-NE. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economic manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England are performed on a regional basis. The Tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric marketplace. The formation of an RTO and other wholesale market changes are not expected to have a material impact on Unitil's operations because of the cost recovery mechanisms for wholesale energy and transmission costs approved by the MDTE and NHPUC.

ENVIRONMENTAL MATTERS

The Company's past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. The Company believes it is in compliance with all applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2006, there are no material losses reasonably possible in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

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

FG&E has recovered the environmental response costs incurred at this former MGP site in gas rates pursuant to an MDTE approved settlement agreement between the Massachusetts Attorney General and the natural gas utilities of the Commonwealth of Massachusetts (Agreement). The Agreement allows FG&E to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs. In addition FG&E has filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. Any recovery that FG&E receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between FG&E and its gas customers.

FG&E is in the process of developing long range plans for a feasible permanent remediation solution for the Sawyer Passway site, including alternatives for re-use of the site. Included on the Company's Consolidated Balance Sheet at December 31, 2006 in Environmental Obligations is $12.0 million related to estimated future clean up costs for permanent remediation of the site. A corresponding regulatory asset was recorded to reflect the future rate recovery for these costs. The amounts recorded do not assume any amounts are recoverable from insurance companies or other third parties.

The Company's ultimate liability for future environmental remediation costs may vary from estimates, which may be adjusted as new information or future developments become available. Based on the Company's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, the Company does not believe that these environmental costs will have a material adverse effect on the Company's consolidated financial position or results of operations.

EMPLOYEES AND EMPLOYEE RELATIONS

As of December 31, 2006, the Company and its subsidiaries had 304 employees. The Company considers it relationships with employees to be good and has not experienced any major labor disruptions.

There are approximately 100 employees represented by labor unions. These employees are covered by collective bargaining agreements, which expire May 31, 2010. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. The Company expects to successfully negotiate new agreements prior to their expiration dates.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In making those estimates and assumptions, the Company is sometimes required to make difficult, subjective and/or complex judgments about the impact of matters that are inherently uncertain and for which different estimates that could reasonably have been used could have resulted in material differences in its financial statements. If actual results were to differ significantly from those estimates, assumptions and judgment, the financial position of the Company could be materially affected and the results of operations of the Company could be materially different than reported. The following is a summary of the Company's most critical accounting policies, which are defined as those policies where judgments or uncertainties could materially affect the application of those policies. For a complete discussion of the Company's significant accounting policies, refer to the financial statements and Note 1: Summary of Significant Accounting Policies.

Regulatory Accounting—The Company's principal business is the distribution of electricity and natural gas by the retail distribution companies: UES and FG&E. Both UES and FG&E are subject to regulation by the FERC and FG&E is regulated by the MDTE and UES is regulated by the NHPUC. Accordingly, the Company uses the provisions of FASB Statement No. 71, "Accounting for the Effects of Certain Types of Regulation." (SFAS No. 71). In accordance with SFAS No. 71, the Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered or refunded in future electric and gas retail rates.

SFAS No. 71 specifies the economic effects that result from the cause and effect relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or "regulatory assets" under SFAS No. 71. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or "regulatory liabilities" under SFAS No. 71.

The Company's principal regulatory assets and liabilities are detailed on the Company's Consolidated Balance Sheet. Generally, the Company is currently receiving or being credited with a return on all of its regulatory assets for which a cash outflow has been made. Generally, the Company is currently paying or being charged with a return on all of its regulatory liabilities for which a cash inflow has been received. The Company's regulatory assets and liabilities will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

The application of SFAS No. 71 results in the deferral of costs as regulatory assets that, in some cases, have not yet been approved for recovery by the applicable regulatory commission. The Company must conclude that any costs deferred as regulatory assets are probable of future recovery in rates. However, regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company's consolidated financial statements. The Company believes it is probable that its regulated utility companies will recover their investments in long-lived assets, including regulatory assets. The Company also has commitments under long-term contracts for the purchase of electricity and natural gas from various suppliers. The annual costs under these contracts are included in Purchased Electricity and Purchased Gas in the Consolidated Statements of Earnings and these costs are recoverable in current and future rates under various orders issued by the FERC, MDTE and NHPUC.

If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of SFAS No. 71. If unable to continue to apply the provisions of SFAS No. 71, the Company would be required to apply the provisions of FASB Statement No. 101, "Regulated Enterprises—Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71." In the Company's opinion, the its regulated operations will be subject to SFAS No. 71 for the foreseeable future.

Utility Revenue Recognition—Regulated utility revenues are based on rates and charges approved by federal and state regulatory commissions. Revenues related to the sale of electric and gas service are recorded when service is rendered or energy is delivered to customers. The determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on estimated customer usage by class and applicable customer rates.

Allowance for Doubtful Accounts—The Company recognizes a Provision for Doubtful Accounts each month. The amount of the monthly Provision is based upon the Company's experience in collecting electric and gas utility service accounts receivable in prior years. Account write-offs, net of recoveries, are processed monthly. At the end of each month, an analysis of the delinquent receivables is performed and the adequacy of the Allowance for Doubtful Accounts is reviewed. The analysis takes into account an assumption about the cash recovery of delinquent receivables and also uses calculations related to customers who have chosen payment plans to resolve their arrears. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company is authorized by regulators to recover the supply-related portion of its written-off accounts from customers through periodically reconciling rate mechanisms. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis. Also, the Company has experienced periods when state regulators have extended the periods during which certain standard credit and collection activities of utility companies are suspended. In periods when account write-offs exceed estimated levels, the Company adjusts the Provision for Doubtful Accounts to maintain an adequate Allowance for Doubtful Accounts balance.

Retirement Benefit Obligations—The Company has a defined benefit pension plan covering substantially all its employees and also provides certain other post-retirement benefits (PBOP), primarily medical and life insurance benefits to retired employees. The Company also has a Supplemental Executive Retirement Plan (SERP) covering certain executives of the Company.

In September 2006, the FASB issued FASB Statement No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans”, (SFAS No. 158), an amendment of SFAS No. 87, “Employers’ Accounting for Pensions”, SFAS No. 88, “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,” SFAS No. 106, “Employers’ Accounting for Postretirement Benefits other than Pensions” and SFAS No. 132(R), “Employers’ Disclosures about Pensions and Other Postretirement Benefits.” SFAS No. 158 requires companies to record on their balance sheets the overfunded or underfunded status of their retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas retail rates. See Note 8 for a table showing the incremental effect of applying SFAS No. 158 on individual line items of the Company’s Consolidated Balance Sheet at December 31, 2006.

The Company accounts for its pension and postretirement benefits in accordance with SFAS No. 158, SFAS No. 87 and SFAS No. 106. In applying these accounting policies, the Company has made critical estimates related to actuarial assumptions, including assumptions of expected returns on plan assets, future compensation, health care cost trends, and appropriate discount rates. For each of these plans, the development of the benefit obligation, fair value of plan assets, funded status and net periodic benefit cost is based on these significant assumptions.

The Company’s reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. The Company’s health care cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. RBO are affected by actual employee demographics, the level of contributions made to the plans, earnings on plan assets, and health care cost trends. Changes made to the provisions of these plans may also affect current and future costs. RBO may also be significantly affected by changes in key actuarial assumptions, including, anticipated rates of return on plan assets and the discount rates used in determining the RBO. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status and net periodic benefit costs could have a material impact on the Company’s consolidated financial statements. See Note 8.

Pension income is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on Plan assets of 8.50%, 8.50% and 8.75% for 2006, 2005 and 2004, respectively. In developing the expected long-term rate of return assumption, the Company evaluated input from actuaries and investment managers. The Company’s expected long-term rate of return on Plan assets is based on target asset allocation assumptions of 60% in common stock equities and 40% in fixed income securities. The combination of these target allocations and expected returns resulted in the overall assumed long-term rate of return of 8.50% for 2006. The Company will continue to evaluate the actuarial assumptions, including the expected rate of return, at least annually, and will adjust the appropriate assumptions as necessary.

The Company bases the actuarial determination of pension expense on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a three-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the fair value of assets. Since the market-related value of assets recognizes gains or losses over a three-year period, the future value of the market-related assets will be impacted as previously deferred gains or losses are recognized. The Company's pension expense for the years 2006, 2005 and 2004 was $2,609,128, $2,391,745 and $1,981,667, respectively. Had the Company used the fair value of assets instead of the market-related value, pension expense for the years 2006, 2005 and 2004 would have been $2,759,208, $2,225,181 and $2,119,667 respectively.

The discount rate that is utilized in determining future pension obligations is based on a market average of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. The discount rate used for 2006 was 5.50%. For the period January 1, 2005 through May 31, 2005, the discount rate used was 6.50%. In May 2005, the Company reached agreements with its union labor bargaining units for new five-year contracts, effective June 1, 2005, which resulted in amendments to the defined benefit pension plan. Effective for the period of June 1, 2005 through December 31, 2005, the Company lowered the assumed discount rate to 6.00%. The discount rate used for the 2004 fiscal year was 6.50%. For 2006, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $200,000 in the Net Periodic Pension Cost. Similarly, for 2005 and 2004, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $200,000. The compensation cost increase assumption used for 2006, 2005 and 2004 was 3.50%, based on the expected long-term increase in compensation costs for personnel covered by the Plan.

Income Taxes—Income tax expense is calculated in each of the jurisdictions in which the Company operates for each period for which a statement of income is presented. This process involves estimating the Company's actual current tax liabilities as well as assessing temporary and permanent differences resulting from differing treatment of items, such as timing of the deduction of expenses for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. The Company accounts for income tax assets, liabilities and expenses in accordance with FASB Statement No. 109, "Accounting for Income Taxes" (SFAS No. 109) which is the authoritative pronouncement on accounting for and reporting income taxes. In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), an interpretation of FAS 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in enterprise's financial statements. FIN 48 prescribes a "more-likely-than-not" recognition threshold for the recognition and measurement of the benefits of a tax position taken or expected to be taken. FIN 48 applies to all tax positions related to income taxes subject to FAS 109. This includes tax positions considered to be "routine" as well as those with a high degree of uncertainty such as tax-advantaged transactions. FIN 48 effectively amends FASB Statement No. 5, "Accounting for Contingencies" (SFAS No. 5), such that all references to income taxes in SFAS No. 5 have been deleted and FIN 48 is now the primary guidance in accounting for uncertainty in income taxes. FIN 48 creates a single model to address accounting for uncertainty in tax positions. Under FIN 48, tax positions accounted for under FAS 109 will be evaluated for recognition, derecognition, and classification and the cumulative affect of adopting FIN 48 may be recorded as an adjustment to retained earnings.

FIN 48 requires disclosures of items and amounts that would affect the Company's effective tax rate in its statement of earnings. FIN 48 also provides guidance on disclosures for interim reporting periods for accounting for income taxes, interest and penalties. The Company will adopt FIN 48 as of January 1, 2007, as required. The Company does not expect that the adoption of FIN 48 will have a significant impact on the Company's financial position and results of operations.

Depreciation—Depreciation expense is calculated based on the useful lives of assets and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company's fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company's consolidated financial statements.

Commitments and Contingencies—The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with SFAS No. 5. SFAS No. 5 applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2006, the Company is not aware of any material commitments or contingencies other than those disclosed in the Significant Contractual Obligations table in the Contractual Obligations section above and the Commitments and Contingencies footnote to the Company's consolidated financial statements below.

Refer to "Recently Issued Accounting Pronouncements' in Note 1 of the Notes of Consolidated Financial Statements for information regarding recently issued accounting standards.

For further information regarding these types of activities, see Note 1, "Summary of Significant Accounting Policies," Note 7, "Income Taxes," Note 4, "Energy Supply," Note 8, "Benefit Plans," and Note 5, "Commitment and Contingencies," to the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Please also refer to Item 1A. "Risk Factors".

INTEREST RATE RISK

As discussed above, Unitil meets its external financing needs by issuing short-term and long-term debt. The majority of debt outstanding represents long-term notes bearing fixed rates of interest. Changes in market interest rates do not affect interest expense resulting from these outstanding long-term debt securities. However, the Company periodically repays its short-term debt borrowings through the issuance of new long-term debt securities. Changes in market interest rates may affect the interest rate and corresponding interest expense on any new issuances of long-term debt securities. In addition, short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease interest expense in future periods. For example, if the average amount of short-term debt outstanding of $25 million for the period of one year, a change in interest rates of 1% would result in a change in annual interest expense of approximately $250,000. The average interest rate on short-term borrowings was 5.5%, 3.8% and 1.9% during 2006, 2005 and 2004, respectively.

MARKET RISK

Although Unitil's utility operating companies are subject to commodity price risk as part of their traditional operations, the current regulatory framework within which these companies operate allows for full collection of electric power and natural gas supply costs in rates on a pass-through basis. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, as discussed above and below in Regulatory Matters, the Company has divested its commodity-related contracts and therefore, further reduced its exposure to commodity risk.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders of Unitil Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of Unitil Corporation and subsidiaries as of December 31, 2006 and December 31, 2005, and the related consolidated statements of earnings, cash flows and changes in common stock equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Unitil Corporation and subsidiaries as of December 31, 2006 and December 31, 2005 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Unitil Corporation's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 2, 2007 expressed an opinion on management's assessment of internal control over financial reporting and a unqualified opinion on the effectiveness of internal control over financial reporting.

/s/ Vitale, Caturano & Co. Ltd.

Boston, Massachusetts
February 2, 2007

Report of Independent Registered Public Accounting Firm

To the Shareholders of Unitil Corporation:

We have audited the accompanying consolidated statements of earnings, cash flows and changes in common stock equity of Unitil Corporation and subsidiaries for the year ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of Unitil Corporation and subsidiaries' operations and their cash flows for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Unitil Corporation's internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 17, 2005 (not separately included herein), expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Boston, Massachusetts
February 17, 2005

Report of Independent Registered Public Accounting Firm

To the Shareholders of Unitil Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that Unitil Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audits included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Unitil Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in the Internal Control-Integrated Framework issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and consolidated statements of capitalization of Unitil Corporation and subsidiaries as of December 31, 2006, and the related consolidated statements of earnings, cash flows and changes in common stock equity for the years then ended, and our report dated February 2, 2007, expressed an unqualified opinion on those consolidated financial statements.

/s/ Vitale, Caturano & Co. Ltd.

Boston, Massachusetts
February 2, 2007

CONSOLIDATED STATEMENTS OF EARNINGS

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

Year Ended December 31,	2006	2005	2004
Operating Revenues:			
Electric	**$ 225,154**	$ 197,338	$ 183,889
Gas	**33,271**	32,768	28,685
Other	**2,436**	2,039	1,563
Total Operating Revenues	**260,861**	232,145	214,137
Operating Expenses:			
Purchased Electricity	**167,333**	138,134	125,940
Purchased Gas	**22,405**	21,225	17,486
Operation and Maintenance	**25,680**	24,514	23,297
Conservation & Load Management	**3,752**	4,115	4,003
Depreciation and Amortization	**16,069**	19,123	18,830
Provisions for Taxes:			
Local Property and Other	**5,501**	5,218	5,182
Federal and State Income	**4,266**	4,275	4,206
Total Operating Expenses	**245,006**	216,604	198,944
Operating Income	**15,855**	15,541	15,193
Other Non-Operating Expenses (Income)	**(19)**	147	193
Income Before Interest Expense	**15,874**	15,394	15,000
Interest Expense, net	**7,841**	6,841	6,774
Net Income	**8,033**	8,553	8,226
Less Dividends on Preferred Stock	**133**	156	215
Earnings Applicable to Common Shareholders	**$ 7,900**	$ 8,397	$ 8,011
Average Common Shares Outstanding—Basic	**5,597,465**	5,551,420	5,509,321
Average Common Shares Outstanding—Diluted	**5,611,734**	5,567,718	5,524,835
Earnings per Common Share—Basic and Diluted	**$ 1.41**	$ 1.51	$ 1.45

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

CONSOLIDATED BALANCE SHEETS *(000's)*

ASSETS

December 31,	2006	2005
Utility Plant:		
Electric	**$250,304**	$234,153
Gas	**63,428**	58,675
Common	**25,220**	26,515
Construction Work in Progress	**14,047**	5,624
Utility Plant	**352,999**	324,967
Less: Accumulated Depreciation	**121,191**	111,646
Net Utility Plant	**231,808**	213,321
Current Assets:		
Cash	**4,556**	3,207
Accounts Receivable—(Net of Allowance for Doubtful Accounts of $1,737 and $470)	**22,546**	23,631
Accrued Revenue	**13,766**	8,905
Material and Supplies	**4,536**	3,675
Prepayments and Other	**1,293**	1,963
Total Current Assets	**46,697**	41,381
Noncurrent Assets:		
Regulatory Assets	**198,828**	179,719
Prepaid Pension	**—**	11,099
Debt Issuance Costs, net	**2,560**	2,343
Other Noncurrent Assets	**3,534**	2,218
Total Noncurrent Assets	**204,922**	195,379
TOTAL	**$483,427**	$450,081

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

CONSOLIDATED BALANCE SHEETS (cont.) *(000's)*

CAPITALIZATION AND LIABILITIES

December 31,	2006	2005
Capitalization:		
Common Stock Equity	**$ 97,775**	$ 96,283
Preferred Stock, Non-Redeemable, Non-Cumulative	**225**	225
Preferred Stock, Redeemable, Cumulative	**1,858**	2,102
Long-Term Debt, Less Current Portion	**140,028**	125,365
Total Capitalization	**239,886**	223,975
Current Liabilities:		
Long-Term Debt, Current Portion	**336**	308
Capitalized Leases, Current Portion	**233**	261
Accounts Payable	**19,813**	20,600
Short-Term Debt	**26,000**	18,700
Taxes Payable	**888**	—
Interest and Dividends Payable	**1,646**	1,403
Other Current Liabilities	**4,554**	4,708
Total Current Liabilities	**53,470**	45,980
Deferred Income Taxes	**34,526**	52,297
Noncurrent Liabilities:		
Power Supply Contract Obligations	**92,558**	114,906
Retirement Benefit Obligations	**49,663**	11,289
Environmental Obligations	**12,000**	—
Capitalized Leases, Less Current Portion	**209**	324
Other Noncurrent Liabilities	**1,115**	1,310
Total Noncurrent Liabilities	**155,545**	127,829
TOTAL	**$483,427**	$450,081

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

CONSOLIDATED STATEMENTS OF CAPITALIZATION

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

December 31,	2006	2005
Common Stock Equity		
Common Stock, No Par Value (Authorized—8,000,000 shares; Outstanding—5,650,263 and 5,595,523 shares)	**$ 61,827**	$ 60,826
Stock Compensation Plans	**1,661**	1,310
Retained Earnings	**34,287**	34,147
Total Common Stock Equity	**97,775**	96,283
Preferred Stock		
UES Preferred Stock, Non-Redeemable, Non-Cumulative:		
6.00% Series, $100 Par Value	**225**	225
FG&E Preferred Stock, Redeemable, Cumulative:		
5.125% Series, $100 Par Value	**874**	892
8.00% Series, $100 Par Value	**984**	1,210
Total Preferred Stock	**2,083**	2,327
Long-Term Debt		
UES First Mortgage Bonds:		
8.49% Series, Due October 14, 2024	**15,000**	15,000
6.96% Series, Due September 1, 2028	**20,000**	20,000
8.00% Series, Due May 1, 2031	**15,000**	15,000
6.32% Series, Due September 15, 2036	**15,000**	—
FG&E Long-Term Notes:		
6.75% Notes, Due November 30, 2023	**19,000**	19,000
7.37% Notes, Due January 15, 2029	**12,000**	12,000
7.98% Notes, Due June 1, 2031	**14,000**	14,000
6.79% Notes, Due October 15, 2025	**10,000**	10,000
5.90% Notes, Due December 15, 2030	**15,000**	15,000
Unitil Realty Corp. Senior Secured Notes:		
8.00% Notes, Due August 1, 2017	**5,364**	5,673
Total Long-Term Debt	**140,364**	125,673
Less: Current Portion	**336**	308
Total Long-Term Debt, Less Current Portion	**140,028**	125,365
Total Capitalization	**$239,886**	$223,975

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (000's)

Year Ended December 31,	2006	2005	2004
Operating Activities:			
Net Income	**$ 8,033**	$ 8,553	$ 8,226
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:			
Depreciation and Amortization	**16,069**	19,123	18,830
Deferred Tax (Benefit) Provision	**481**	(240)	3,166
Changes in Current Assets and Liabilities:			
Accounts Receivable	**1,085**	(5,512)	(658)
Accrued Revenue	**(4,861)**	849	275
Accounts Payable	**(787)**	4,351	1,225
Taxes Payable	**888**	626	2,839
All Other Current Assets and Liabilities	**(86)**	1,386	5,597
Deferred Restructuring Charges	**1,129**	(4,223)	(5,820)
Other, net	**(1,578)**	(837)	(3,032)
Cash Provided by Operating Activities	**20,373**	24,076	30,648
Investing Activities:			
Property, Plant and Equipment Additions	**(33,642)**	(24,367)	(22,922)
Cash Used In Investing Activities	**(33,642)**	(24,367)	(22,922)
Financing Activities:			
Proceeds from (Repayment of) Short-Term Debt	**7,300**	(6,975)	3,265
Issuance of Long-Term Debt	**15,000**	15,000	—
Repayment of Long-Term Debt	**(310)**	(286)	(3,264)
Retirement of Preferred Stock	**(243)**	(11)	(931)
Dividends Paid	**(7,908)**	(7,843)	(7,857)
Issuance of Common Stock	**1,001**	1,031	947
Repayment of Capital Lease Obligations	**(222)**	(450)	(620)
Cash Provided by (Used In) Financing Activities	**14,618**	466	(8,460)
Net Increase (Decrease) in Cash	**1,349**	175	(734)
Cash at Beginning of Year	**3,207**	3,032	3,766
Cash at End of Year	**$ 4,556**	$ 3,207	$ 3,032
Supplemental Information:			
Interest Paid	**$ 10,690**	$ 9,455	$ 9,052
Income Taxes Paid	**$ 3,101**	$ 4,544	$ 990

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

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

(000's except number of shares)

	Common Shares	Stock Compensation Plans	Retained Earnings	Total
Balance at January 1, 2004	$58,848	$ 908	$33,049	**$92,805**
Net Income for 2004			8,226	**8,226**
Dividends on Preferred Shares			(215)	**(215)**
Dividends on Common Shares			(7,623)	**(7,623)**
Stock Compensation Plans		151		**151**
Issuance of 35,310 Common Shares	947			**947**
Balance at December 31, 2004	59,795	1,059	33,437	**94,291**
Net Income for 2005			8,553	**8,553**
Dividends on Preferred Shares			(156)	**(156)**
Dividends on Common Shares			(7,687)	**(7,687)**
Stock Compensation Plans		251		**251**
Issuance of 38,003 Common Shares	1,031			**1,031**
Balance at December 31, 2005	60,826	1,310	34,147	**96,283**
Net Income for 2006			8,033	**8,033**
Dividends on Preferred Shares			(133)	**(133)**
Dividends on Common Shares			(7,760)	**(7,760)**
Stock Compensation Plans		351		**351**
Issuance of 40,365 Common Shares	1,001			**1,001**
Balance at December 31, 2006	**$61,827**	**$1,661**	**$34,287**	**$97,775**

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

Note 1: Summary of Significant Accounting Policies

Nature of Operations—Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005. Prior to the passage of the Energy Policy Act of 2005, Unitil and its subsidiaries were subject to regulation as a registered holding company system under the Public Utility Holding Company Act of 1935 (PUHCA) by the Securities and Exchange Commission (SEC). As a result of the enactment of the Energy Policy Act of 2005, PUHCA has been repealed. The following companies are wholly-owned subsidiaries of Unitil: Unitil Energy Systems, Inc. (UES), Fitchburg Gas and Electric Light Company (FG&E), Unitil Power Corp. (Unitil Power), Unitil Realty Corp. (Unitil Realty), Unitil Service Corp. (Unitil Service) and its non-regulated business unit Unitil Resources, Inc. (Unitil Resources). Usource, Inc. and Usource L.L.C. are subsidiaries of Unitil Resources.

Unitil's principal business is the retail distribution of electricity in the southeastern seacoast and capital city areas of New Hampshire and the retail distribution of both electricity and natural gas in the greater Fitchburg area of north central Massachusetts, through the Company's two wholly-owned subsidiaries, UES and FG&E, collectively referred to as the retail distribution utilities.

A third utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for UES. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of UES on May 1, 2003 and divested of its long-term power supply contracts through the sale of the entitlements to the electricity associated with various electric power supply contracts it had acquired to serve UES' customers.

Unitil also has three other wholly-owned subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company's corporate office in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Resources is the Company's wholly-owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly-owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to large commercial and industrial customers in the northeastern United States.

Basis of Presentation

Principles of Consolidation—In accordance with current accounting pronouncements, the Company's consolidated financial statements include the accounts of Unitil and all of its wholly-owned subsidiaries and all intercompany transactions are eliminated in consolidation.

Regulatory Accounting—The Company's principal business is the distribution of electricity and natural gas by the Company-owned retail distribution utilities: UES and FG&E. Both UES and FG&E are subject to regulation by the FERC and FG&E is regulated by the Massachusetts Department of Telecommunications and Energy (MDTE) and UES is regulated by the New Hampshire Public Utilities Commission (NHPUC). Accordingly, the Company uses the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). In accordance with SFAS No. 71, the Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered in future electric and gas retail rates.

SFAS No. 71 specifies the economic effects that result from the cause and effect relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or "regulatory assets" under SFAS No. 71. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or "regulatory liabilities" under SFAS No. 71.

The Company's principal regulatory assets and liabilities are detailed on the Company's Consolidated Balance Sheet and a summary of the Company's Regulatory Assets is provided below. Generally, the Company is currently receiving or being credited with a return on primarily all of its regulatory assets for which a cash outflow has been made. Generally, the Company is currently paying or being charged with a return on all of its regulatory liabilities for which a cash inflow has been received. The Company's regulatory assets and liabilities will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

The application of SFAS No. 71 results in the deferral of costs as regulatory assets that, in some cases, have not yet been approved for recovery by the applicable regulatory commission. The Company must conclude that any costs deferred as regulatory assets are probable of future recovery in rates. However, regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company's consolidated financial statements. The Company believes it is probable that its regulated utility companies will recover their investments in long-lived assets, including regulatory assets. The Company also has commitments under long-term contracts for the purchase of electricity and natural gas from various suppliers. The annual costs under these contracts are included in Purchased Electricity and Purchased Gas in the Consolidated Statements of Earnings and these costs are recoverable in current and future rates under various orders issued by the FERC, MDTE and NHPUC.

	December 31,	
Regulatory Assets consist of the following (millions)	**2006**	**2005**
Power Supply Buyout Obligations	**$ 92.6**	$114.9
Deferred Restructuring Costs	**31.0**	31.2
Generation-related Assets	**2.5**	3.3
Subtotal—Restructuring Related Items	**126.1**	149.4
Retirement Benefit Obligations	**37.1**	9.2
Income Taxes	**19.1**	17.5
Environmental Obligations	**13.0**	0.4
Other	**3.5**	3.2
Total Regulatory Assets	**$198.8**	$179.7

Massachusetts and New Hampshire have both passed utility industry restructuring legislation and the Company has filed and implemented its restructuring plans in both states. The Company is allowed to recover certain types of costs through ongoing assessments to be included in future retail rates. Based on the recovery mechanism that allows recovery of all of its stranded costs and deferred costs related to restructuring, the Company has recorded regulatory assets that it expects to fully recover in future periods. The Company expects to continue to meet the criteria for the application of SFAS No. 71 for the distribution portion of its assets and operations for the foreseeable future.

If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of SFAS No. 71. If unable to continue to apply the provisions of SFAS No. 71, the Company would be required to apply the provisions of FASB Statement No. 101, "Regulated Enterprises—Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71." In the Company's opinion, its regulated subsidiaries will be subject to SFAS No. 71 for the foreseeable future.

Cash—Cash includes all cash and cash equivalents to which the Company has legal title. Cash equivalents include short-term investments with original maturities of three months or less and interest bearing deposits. Financial instruments that subject the Company to credit risk concentrations consist of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are held at financial institutions and at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash. Under the Independent System Operator—New England (ISO-NE) Financial Assurance Policy (Policy), Unitil's affiliates UES, FG&E and Unitil Power are required to provide assurance of their ability to satisfy their obligations to ISO-NE. Under this Policy, Unitil's affiliates provide cash deposits covering approximately 2-1/2 months of outstanding obligations. On December 31, 2006 and 2005, the Unitil affiliates had deposited $2.0 million and $1.5 million, respectively to satisfy their ISO-NE obligations.

Goodwill and Intangible Assets—The Company does not have any goodwill recorded on its balance sheet as of December 31, 2006. There are no significant intangible assets recorded by the Company at December 31, 2006. Therefore, the Company is not currently involved in making estimates or seeking valuations of these items.

Off-Balance Sheet Arrangements—As of December 31, 2006, the Company does not have any significant arrangements that would be classified as Off-Balance Sheet Arrangements. In the ordinary course of business, the Company does contract for certain office equipment, vehicles and other equipment under operating leases and, in the Company's opinion, the amount of these transactions is not material.

Investments and Trading Activities—During the year, the Company does invest in U.S. Treasuries and short-term investments which traditionally have very little fluctuation in fair value. The Company does not engage in investing or trading activities involving non-exchange traded contracts or other instruments where a periodic analysis of fair value would be required for book accounting purposes.

Derivatives—The Company enters into wholesale electric and gas energy supply contracts to serve its customers. The Company's policy is to review each contract and determine whether they meet the criteria for classification as derivatives under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) and / or FASB Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). As of December 31, 2006, the Company determined that none of its wholesale electric and gas energy supply contracts met the criteria for classification as a derivative instrument. Additionally, the Company may enter into interest rate hedging transactions with respect to existing indebtedness and anticipated debt offerings. As of December 31, 2006, the Company has not entered into any such transactions. However, should the Company enter into any such transactions in the future, its policy will be to review each transaction and determine whether it meets the criteria for classification as derivatives under SFAS No. 133 and / or SFAS No. 149.

Utility Revenue Recognition—Regulated utility revenues are based on rates and charges approved by federal and state regulatory commissions. Revenues related to the sale of electric and gas service are recorded when service is rendered or energy is delivered to customers. The determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on estimated customer usage by class and applicable customer rates.

Revenue Recognition—Non-regulated Operations—Usource, Unitil's competitive energy brokering subsidiary, records energy brokering revenues based upon the estimated amount of electricity and gas delivered to customers through the end of the accounting period.

Allowance for Doubtful Accounts—The Company recognizes a Provision for Doubtful Accounts each month. The amount of the monthly Provision is based upon the Company's experience in collecting electric and gas utility service accounts receivable in prior years. Account write-offs, net of recoveries, are processed monthly. At the end of each month, an analysis of the delinquent receivables is performed and the adequacy of the Allowance for Doubtful Accounts is reviewed. The analysis takes into account an assumption about the cash recovery of delinquent receivables and also uses calculations related to customers who have chosen payment plans to resolve their arrears. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company is authorized by regulators to recover the supply-related portion of its written-off accounts from customers through periodically reconciling rate mechanisms. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis. Also, the Company has experienced periods when state regulators have extended the periods during which certain standard credit and collection activities of utility companies are suspended. In periods when account write-offs exceed estimated levels, the Company adjusts the Provision for Doubtful Accounts to maintain an adequate Allowance for Doubtful Accounts balance.

Retirement Benefit Obligations—The Company has a defined benefit pension plan covering substantially all its employees and also provides certain other post-retirement benefits (PBOP), primarily medical and life insurance benefits to retired employees. The Company also has a Supplemental Executive Retirement Plan (SERP) covering certain executives of the Company.

In September 2006, the FASB issued FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", (SFAS No. 158), an amendment of SFAS No. 87, "Employers' Accounting for Pensions", SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions" and SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 158 requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas retail rates. See Note 8 for a table showing the incremental effect of applying SFAS No. 158 on individual line items of the Company's Consolidated Balance Sheet at December 31, 2006.

The Company accounts for its pension and postretirement benefits in accordance with SFAS No. 158, SFAS No. 87 and SFAS No. 106. In applying these accounting policies, the Company has made critical estimates related to actuarial assumptions, including assumptions of expected returns on plan assets, future compensation, health care cost trends, and appropriate discount rates. For each of these plans, the development of the benefit obligation, fair value of plan assets, funded status and net periodic benefit cost is based on these significant assumptions.

The Company's reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. The Company's health care cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. RBO are affected by actual employee demographics, the level of contributions made to the plans, earnings on plan assets, and health care cost trends. Changes made to the provisions of these plans may also affect current and future costs. RBO may also be significantly affected by changes in key actuarial assumptions, including, anticipated rates of return on plan assets and the discount rates used in determining the RBO. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status and net periodic benefit costs could have a material impact on the Company's consolidated financial statements (See Note 8.)

Pension income is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on Plan assets of 8.50%, 8.50% and 8.75% for 2006, 2005 and 2004, respectively. In developing the expected long-term rate of return assumption, the Company evaluated input from actuaries and investment advisors. The Company's expected long-term rate of return on Plan assets is based on target asset allocation assumptions of 60% in common stock equities and 40% in fixed income securities. The combination of these target allocations and expected returns resulted in the overall assumed long-term rate of return of 8.50% for 2006. The Company will continue to evaluate the actuarial assumptions, including the expected rate of return, at least annually, and will adjust the appropriate assumptions as necessary.

The Company bases the actuarial determination of pension expense on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a three-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the fair value of assets. Since the market-related value of assets recognizes gains or losses over a three-year period, the future value of the market-related assets will be impacted as previously deferred gains or losses are recognized. The Company's pension expense for the years 2006, 2005 and 2004 was $2,609,128, $2,391,745 and $1,981,667, respectively. Had the Company used the fair value of assets instead of the market-related value, pension expense for the years 2006, 2005 and 2004 would have been $2,759,208, $2,225,181 and $2,119,667 respectively.

The discount rate that is utilized in determining future pension obligations is based on a market average of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. The discount rate used for 2006 was 5.50%. For the period January 1, 2005 through May 31, 2005, the discount rate used was 6.50%. In May 2005, the Company reached agreements with its union labor bargaining units for new five-year contracts, effective June 1, 2005, which resulted in amendments to the defined benefit pension plan. Effective for the period of June 1, 2005 through December 31, 2005, the Company lowered the assumed discount rate to 6.00%. The discount rate used for the 2004 fiscal year was 6.50%. For 2006, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $200,000 in the Net Periodic Pension Cost. Similarly, for 2005 and 2004, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $200,000. The compensation cost increase assumption used for 2006, 2005 and 2004 was 3.50%, based on the expected long-term increase in compensation costs for personnel covered by the Plan.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and requires disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company policy is to record those estimates in accordance with the American Institute of Certified Public Accountants Statement of Position 94-6, "Disclosure of Certain Significant Risks and Uncertainties."

Commitments and Contingencies—The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with FASB Statement No. 5, "Accounting for Contingencies" (SFAS No. 5). SFAS No. 5 applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2006, the Company is not aware of any material commitments or contingencies other than those disclosed in the Commitments and Contingencies footnote to the Company's consolidated financial statements below (See Note 5.)

Utility Plant—The cost of additions to Utility Plant and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The average interest rates applied to AFUDC were 4.92%, 2.33% and 1.64% in 2006, 2005 and 2004, respectively. The costs of current repairs and minor replacements are charged to appropriate operating expense accounts. The original cost of utility plant retired or otherwise disposed of and the cost of removal, less salvage, are charged to the accumulated provision for depreciation. The Company does not account separately for negative salvage, or cost of retirement obligations as defined in FASB Statement No. 143, "Accounting for Asset Retirement Obligations" and FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations." The Company includes in its mass asset depreciation rates, which are periodically reviewed as part of its ratemaking proceedings, depreciation amounts to provide for future negative salvage value. At December 31, 2006 and December 31, 2005, the Company estimates that the negative salvage value of future retirements recorded on the balance sheet in Accumulated Depreciation is $14.9 million and $13.4 million, respectively.

Depreciation and Amortization—Depreciation expense is calculated based on the useful lives of assets, and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company's fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company's consolidated financial statements.

Depreciation provisions for Unitil's utility operating subsidiaries are determined on a group straight-line basis. Provisions for depreciation were equivalent to the following composite rates, based on the average depreciable property balances at the beginning and end of each year: 2006—4.40%, 2005—4.69% and 2004—4.70%.

Amortization provisions include the recovery, in 2004 and 2005, of a portion of FG&E's former investment in Seabrook Station, a nuclear generating unit, in rates to its customers through the Seabrook Amortization Surcharge as ordered by the MDTE. FG&E's asset related to Seabrook Station became fully-amortized in the third quarter of 2005. In addition, FG&E is amortizing the balance of its unrecovered electric generating related assets, which are recorded as Regulatory Assets, in accordance with its electric restructuring plan approved by the MDTE (See Note 5.)

Environmental Matters—The Company's past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. In the past three years, the Company has performed work on two environmental remediation projects, the Sawyer Passway MGP Site and the Former Electric Generating Station. The Company has or will recover substantially all of the cost of the work performed to date from customers or from its insurance carriers. The Company believes it is in compliance with all applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2006, there are no material losses that would require additional liability reserves to be recorded other than those disclosed in Note 5, Commitments and Contingencies. Changes in future environmental compliance regulations or in future cost estimates of environmental remediation costs could have a material effect on the Company's financial position if those amounts are not recoverable in regulatory rate mechanisms.

Stock-based Employee Compensation—Unitil accounts for stock-based employee compensation currently using the fair value-based method (See Note 2.)

Sales and Consumption Taxes—The Company bills its customers sales tax in Massachusetts and consumption tax in New Hampshire. These taxes are remitted to the appropriate departments of revenue in each state and are excluded from revenues on the Company's Consolidated Statements of Earnings.

Income Taxes—Income tax expense is calculated in each of the jurisdictions in which the Company operates for each period for which a statement of income is presented. This process involves estimating the

Company’s actual current tax liabilities as well as assessing temporary and permanent differences resulting from differing treatment of items, such as timing of the deduction of expenses for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. The Company accounts for income tax assets, liabilities and expenses in accordance with FASB Statement No. 109, “Accounting for Income Taxes” (SFAS No. 109) which is the authoritative pronouncement on accounting for and reporting income taxes. In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48), an interpretation of FAS 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in enterprise’s financial statements. FIN 48 prescribes a “more-likely-than-not” recognition threshold for the recognition and measurement of the benefits of a tax position taken or expected to be taken. FIN 48 applies to all tax positions related to income taxes subject to FAS 109. This includes tax positions considered to be “routine” as well as those with a high degree of uncertainty such as tax-advantaged transactions. FIN 48 effectively amends SFAS No. 5, such that all references to income taxes in SFAS No. 5 have been deleted and FIN 48 is now the primary guidance in accounting for uncertainty in income taxes. FIN 48 creates a single model to address accounting for uncertainty in tax positions. Under FIN 48, tax positions accounted for under FAS 109 will be evaluated for recognition, derecognition, and classification and the cumulative affect of adopting FIN 48 may be recorded as an adjustment to retained earnings.

FIN 48 requires disclosures of items and amounts that would affect the Company’s effective tax rate in its statement of earnings. FIN 48 also provides guidance on disclosures for interim reporting periods for accounting for income taxes, interest and penalties. The Company will adopt FIN 48 as of January 1, 2007, as required. The Company does not expect that the adoption of FIN 48 will have a significant impact on the Company’s financial position and results of operations.

Dividends—The Company is currently paying a dividend at an annual rate of $1.38 per common share.

The Company’s dividend policy is reviewed periodically by the Board of Directors. The amount and timing of all dividend payments is subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial conditions and other factors.

Other Recently Issued Pronouncements—In October 2006, the FASB issued FASB Staff Position No. FAS 123(R)-5, (FSP FAS 123(R)-5), “Amendment of FASB Staff Position FAS 123(R)-1” and FASB Staff Position No. FAS 123(R)-6, (FSP FAS 123(R)-6), “Technical Corrections of FASB Statement No. 123(R)”. FSP FAS 123(R)-5 addresses whether a modification of an instrument in connection with an equity restructuring should be considered a modification for purposes of applying FSP FAS 123(R)-1, “Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under revised FASB Statement No. 123(R), “Share-Based Payment”, (SFAS No. 123(R)), which was issued in December 2004. FSP FAS 123(R)-6 addresses certain technical corrections of SFAS No. 123(R). SFAS No. 123(R) requires all entities to recognize the fair value of share-based payment awards classified in equity, unless they are unable to reasonably estimate the fair value of the award. Prior to the adoption of SFAS No. 123(R) the Company accounted for share-based payments under SFAS No. 123, “Accounting for Stock-Based Compensation.” The Company uses the fair value method for share-based payment awards and therefore the provisions of SFAS No. 123(R) have no impact on the Consolidated Financial Statements. The Company has adopted the provisions of FSP FAS 123(R)-5 and FSP FAS 123(R)-6.

In September 2006, the FASB issued FASB Statement No. 157, “Fair Value Measurements”, (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect SFAS No. 157 to have an impact on the Company’s Consolidated Financial Statements.

In February 2006, the FASB issued FASB Statement No. 155, "Accounting for Certain Hybrid Financial Instruments", (SFAS No. 155), which amends SFAS No.133 and FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", (SFAS No. 140), effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133. The Company does not expect SFAS No. 155 to have an impact on the Company's Consolidated Financial Statements.

Note 2: Equity

The Company has both common and preferred stock outstanding. Details regarding these forms of capitalization follow:

Common Stock

Dividend Reinvestment and Stock Purchase Plan—During 2006, the Company sold 40,365 shares of its Common Stock, at an average price of $24.78 per share, in connection with its Dividend Reinvestment and Stock Purchase Plan (DRP) and its 401(k) plans. Net proceeds of $1.0 million were used to reduce short-term borrowings. The DRP provides participants in the plan a method for investing cash dividends on the Company's Common Stock and cash payments in additional shares of the Company's Common Stock. During 2005 and 2004, the Company raised $1.0 million and $0.9 million, respectively, of additional common equity through the issuance of 38,003 and 35,310 shares, respectively, of its Common Stock in connection with its DRP and 401(k) plans.

Shares Repurchased, Cancelled and Retired—During 2006, 2005 and 2004, Unitil did not repurchase, cancel or retire any of its common stock. The Company has adopted SFAS No. 123(R), "Accounting for Stock Based Compensation," and recognizes compensation costs at fair value at the date of grant.

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

Restricted Stock Plan—On April 17, 2003, the Company's shareholders ratified and approved a Restricted Stock Plan (the Plan) which had been approved by the Company's Board of Directors at its January 16, 2003 meeting. Participants in the Plan are selected by the Compensation Committee of the Board of Directors from the eligible Participants to receive an annual award of restricted shares of Company Common Stock. The Compensation Committee has the power to determine the sizes of awards; determine the terms and conditions of awards in a manner consistent with the Plan; construe and interpret the Plan and any agreement or instrument entered into under the Plan as they apply to participants; establish, amend, or waive rules and regulations for the Plan's administration as they apply to participants; and, subject to the provisions of the Plan, amend the terms and conditions of any outstanding award to the extent such terms and conditions are within the discretion of the Compensation Committee as provided for in the Plan. Awards fully vest over a period of four years at a rate of 25% each year.

During the vesting period, dividends on restricted shares underlying the Award may be credited to the participant's account. Awards may be grossed up to offset the participant's tax obligations in connection with the Award. Prior to the end of the vesting period, the restricted shares are subject to forfeiture if the participant ceases to be employed by the Company other than due to the participant's death. The maximum number of shares of Restricted Stock available for awards to participants under the Plan is 177,500. The maximum aggregate number of shares of Restricted Stock that may be awarded in any one calendar year to any one participant is 20,000. In the event of any change in capitalization of the Company, the Compensation Committee is authorized to make proportionate adjustments to prevent dilution or enlargement of rights, including, without limitation, an adjustment in the maximum number and kinds of shares available for awards and in the annual award limit.

On February 16, 2006, 14,375 restricted shares were issued in conjunction with the Plan with an aggregate market value at the date of issuance of $0.4 million. On March 8, 2005, 10,900 restricted shares were issued in conjunction with the Plan with an aggregate market value at the date of issuance of $0.3 million. On April 29, 2004, 10,700 restricted shares were issued in conjunction with the Plan with an aggregate market value at the date of issuance of $0.3 million. On May 12, 2003, 10,600 restricted shares were issued in conjunction with the Plan with an aggregate market value at the date of issuance of $0.3 million. The compensation expense associated with the issuance of shares under the Plan is being accrued on a monthly basis over the vesting period and was $0.4 million in 2006, including amounts for tax gross-up.

Unitil Corporation Key Employee Stock Option Plan—The "Unitil Corporation Key Employee Stock Option Plan" was a 10-year plan which began in March 1989. The number of shares underlying options granted under this plan, as well as the terms and conditions of each grant, were determined by the Key Employee Stock Option Plan Committee of the Board of Directors, subject to plan limitations. At December 31, 2006, 29,101 shares underlying options had been approved and were available for future issuance as dividend equivalents earned under the plan. All options granted under this plan vested upon grant. The 10-year period in which options could be granted under this plan expired in March 1999. The expiration date of the remaining outstanding options is November 3, 2007. The plan provides dividend equivalents on options granted, which are recorded at fair value as compensation expense. The total compensation expenses recorded by the Company with respect to this plan were $54,000, $51,000 and $49,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

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

	2006	2005	2004
Beginning Options Outstanding and Exercisable	**25,000**	25,000	25,000
Dividend Equivalents Earned—Prior Years	**13,202**	11,321	9,495
Dividend Equivalents Earned—Current Year	**2,186**	1,881	1,826
Options Exercised	**—**	—	—
Ending Options Outstanding and Exercisable	**40,388**	38,202	36,321
Weighted Average Exercise Price per Share	**$11.25**	$11.89	$12.51
Range of Option Exercise Price per Share	**$12.11-$18.28**	$12.11-$18.28	$12.11-$18.28
Weighted Average Remaining Contractual Life	**0.9 years**	1.9 years	2.9 years

Unitil Corporation 1998 Stock Option Plan—The "Unitil Corporation 1998 Stock Option Plan" became effective on December 11, 1998. The number of shares granted under this plan, as well as the terms and conditions of each grant, are determined by the Compensation Committee of the Board of Directors, subject to plan limitations. All options granted under this plan vest over a three-year period from the date of the grant, with 25% vesting on the first anniversary of the grant, 25% vesting on the second anniversary, and 50% vesting on the third anniversary. Under the terms of this plan, key employees may be granted options to purchase the Company's Common Stock at no less than 100% of the market price on the date the option is granted. All options must be exercised no later than 10 years after the date on which they were granted. This plan was terminated on January 16, 2003. There was no compensation expense associated with this plan in 2006, 2005 and 2004. The plan will remain in effect solely for the purposes of the continued administration of all options currently outstanding under the plan. No further grants of options will be made under this plan.

There were 107,000 vested and exercisable options outstanding, with an average exercise price of $27.13, at December 31, 2004, 2005 and 2006. There were no options granted or forfeited during those years.

The following summarizes certain data for the options outstanding at December 31, 2006:

Range of Exercise Prices	Options Vested, Exercisable and Outstanding	Weighted Average Exercise Price	Remaining Contractual Life
$20.00-$24.99	34,500	$23.38	2.2 years
$25.00-$29.99	37,500	$25.88	4.1 years
$30.00-$34.99	35,000	$32.17	3.1 years
	107,000		

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

Its two retail distribution subsidiaries, UES and FG&E, do have restrictions. Under the terms of the First Mortgage Bond Indentures, UES had $14.8 million available for the payment of cash dividends on its Common Stock at December 31, 2006. Under the terms of long-term debt purchase agreements, FG&E had $7.2 million of retained earnings available for the payment of cash dividends on its Common Stock at December 31, 2006. Common dividends declared by UES and FG&E are paid exclusively to Unitil Corporation.

Preferred Stock

Unitil's two retail distribution companies, UES and FG&E, have preferred stock outstanding. At December 31, 2006, UES has a 6.00% Series Non-Redeemable, Non-Cumulative Preferred Stock series outstanding and FG&E has two series of Redeemable, Cumulative Preferred Stock outstanding, the 5.125% Series and the 8.00% Series.

FG&E is required to offer to redeem annually a given number of shares of each series of Redeemable, Cumulative Preferred Stock and to purchase such shares that shall have been tendered by holders of the respective stock. In addition, FG&E may opt to redeem the Redeemable, Cumulative Preferred Stock at a given redemption price, plus accrued dividends.

The aggregate purchases of Redeemable, Cumulative Preferred Stock during 2006, 2005 and 2004 related to the annual redemption offer were $22,000, $11,400 and $26,900, respectively. The aggregate amount of sinking fund requirements of the Redeemable, Cumulative Preferred Stock for each of the five years following 2006 is $117,000 per year.

On February 10, 2006, FG&E repurchased, canceled and retired 2,213 shares of its 8.00% series of Redeemable, Cumulative Preferred Stock at an aggregate par value of $221,300. FG&E used operating cash to effect this transaction.

On October 15, 2004, UES redeemed and retired the remaining three outstanding issues of its Redeemable, Cumulative Preferred Stock at par, aggregating $904,100. The three issues redeemed and retired were the 8.70% Series (aggregate par value of $215,000), the 8.75% Series (aggregate par value of $313,600) and the 8.25% Series (aggregate par value of $375,500). UES used operating cash to effect this transaction.

Note 3: Long-Term Debt, Credit Arrangements, Leases and Guarantees

The Company funds a portion of its operations through the issuance of long-term debt and through short-term borrowing arrangements. The Company's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their machinery, vehicles and office equipment. Details regarding long-term debt, short-term debt and leases follow:

Long-Term Debt and Interest Expense

Substantially all the property of Unitil's New Hampshire utility operating subsidiary, UES, is subject to liens of indenture under which First Mortgage bonds have been issued. UES utilizes a First Mortgage Bond (FMB) structure of long-term debt. In order to issue new FMB securities, the customary covenants of the existing UES Indenture Agreement must be met, including that UES have sufficient available net bondable plant to issue the securities and projected earnings available for interest charges equal to at least two times the annual interest requirement. The UES agreements further require that if UES defaults on any UES FMB securities, it would constitute a default for all UES FMB securities. The UES default provisions are not triggered by the actions or defaults of other companies in the Unitil System.

All of the long-term debt of Unitil's Massachusetts utility operating subsidiary, FG&E, is issued under Unsecured Promissory Notes with negative pledge provisions. Each issue of FG&E's long-term debt ranks pari passu with its other senior unsecured long-term debt. The long-term debt's negative pledge provisions contain restrictions which, among other things, limit the incursion of additional long-term debt. Accordingly, in order for FG&E to issue new long-term debt, the covenants of the existing long-term agreements must be satisfied, including that FG&E have total funded indebtedness less than 65% of total capitalization and earnings available for interest equal to at least two times the interest charges for funded indebtedness. As with the UES agreements, FG&E agreements require that if FG&E defaults on any FG&E long-term debt agreement, it would constitute a default under all FG&E long-term debt agreements. The FG&E default provisions are not triggered by the actions or defaults of other companies in the Unitil System.

Both the UES and FG&E instruments and agreements contain covenants restricting the ability of each company to incur liens and to enter into sale and leaseback transactions, and restricting the ability of each company to consolidate with, to merge with or into, or to sell or otherwise dispose of all or substantially all of its assets. In addition, the UES and FG&E long-term debt instruments and agreements contain certain restrictions on the payment of common dividends from Retained Earnings. On December 31, 2006, UES and FG&E had unrestricted Retained Earnings of $14.8 million and $7.2 million, respectively, available for the payment of common dividends. UES and FG&E pay dividends to their sole shareholder, Unitil Corporation, and these dividends are the primary source of cash for the payment of dividends to Unitil shareholders.

Total aggregate amount of sinking fund payments relating to bond issues and normal scheduled long-term debt repayments amounted to $310,136, $286,368 and $3,264,421 in 2006, 2005 and 2004, respectively.

The aggregate amount of bond sinking fund requirements and normal scheduled long-term debt repayments for each of the five years following 2006 is: 2007—$335,877, 2008—$363,755, 2009—$393,946, 2010—$426,643 and 2011—$462,055.

On September 26, 2006 UES issued and sold $15 million of Series O 6.32% First Mortgage Bonds, due September 15, 2036, to institutional investors in the form of a private placement. The proceeds from this long-term financing were used principally to permanently finance long-lived utility plant additions that had been previously financed on an interim basis with short-term bank borrowings.

FG&E, through a private placement, consummated the issuance and sale on December 21, 2005 of $15 million of unsecured long-term notes to institutional investors. The notes have a term of 25 years and a coupon rate of 5.90%. The net proceeds were used to reduce FG&E's outstanding short-term indebtedness.

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the Company's long-term debt at December 31, 2006 is estimated to be in a range of up to approximately $157 million, before considering any costs, including prepayment costs, to market the Company's debt. Currently, the Company believes that there is no active market in the Company's debt securities, which have all been sold through private placements.

The agreements under which the long-term debt of Unitil's two principal subsidiaries, UES and FG&E, were issued contain various covenants and restrictions. These agreements do not contain any covenants or restrictions pertaining to the maintenance of financial ratios or the issuance of short-term debt. These agreements do contain covenants relating to, among other things, the issuance of additional long-term debt, cross-default provisions and business combinations.

Interest Expense, net—Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. Certain reconciling rate mechanisms used by the Company's distribution operating utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated.

The Company operates a number of reconciling rate mechanisms to recover specifically identified costs on a pass through basis. These reconciling rate mechanisms track costs and revenue on a monthly basis. In any given month, this monthly tracking and reconciling process will produce either an under-collected or an over-collected balance of costs. In accordance with the Company's rate tariff, interest is accrued on these balances and will produce either interest income or interest expense. Interest income is recorded on an under-collection of costs, which creates a regulatory asset to be recovered in future periods when rates are reset. Interest expense is recorded on an over-collection of costs, which creates a regulatory liability to be refunded in future periods when rates are reset.

A summary of interest expense and interest income is provided in the following table:

Interest Expense, net (millions)

	2006	2005	2004	2006 vs. 2005 Change	2005 vs. 2004 Change
Interest Expense					
Long-term Debt	**$ 9.5**	$ 8.4	$ 8.5	$ 1.1	$(0.1)
Short-term Debt	**1.5**	1.0	0.5	0.5	0.5
Regulatory Liabilities	**0.3**	0.2	0.1	0.1	0.1
Subtotal Interest Expense	**11.3**	9.6	9.1	1.7	0.5
Interest Income					
Regulatory Assets	**(3.1)**	(2.6)	(2.3)	(0.5)	(0.3)
AFUDC and Other	**(0.4)**	(0.2)	—	(0.2)	(0.2)
Subtotal Interest Income	**(3.5)**	(2.8)	(2.3)	(0.7)	(0.5)
Total Interest Expense, net	**$ 7.8**	$ 6.8	$ 6.8	$ 1.0	$ —

Credit Arrangements

At December 31, 2006, Unitil had unsecured committed bank lines for short-term debt in the aggregate amount of $40.0 million with three banks for which it pays commitment fees. The weighted average interest rates on all short-term borrowings were 5.5%, 3.8% and 1.9% during 2006, 2005 and 2004, respectively. The Company had short-term debt outstanding through bank borrowings of approximately $26.0 million and $18.7 million at December 31, 2006 and December 31, 2005, respectively. On January 1, 2007, Unitil's unsecured committed bank lines of credit increased to $41.0 million with the same three banks.

Leases

Unitil's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their vehicles, machinery and office equipment under both capital and operating lease arrangements.

Total rental expense under operating leases charged to operations for the years ended December 31, 2006, 2005 and 2004 amounted to $410,000, $301,000 and $249,000 respectively. FG&E leases its operations facility in Fitchburg, Massachusetts under an operating lease, with a primary term through January 31, 2013. The lease agreement allows for three additional five-year renewal periods at the option of FG&E. The following is a schedule of future operating lease payment obligations as of December 31, 2006:

Year Ending December 31 (000's)	
2007	$ 456
2008	456
2009	453
2010	430
2011	378
2012-2016	647
Total Future Operating Lease Payments	$2,820

The following is a schedule of future minimum lease payments and present value of net minimum lease payments under capital leases, as of December 31, 2006:

Year Ending December 31 (000's)	
2007	$233
2008	178
2009	29
2010	1
2011	1
Total Minimum Lease Payments	$442

Guarantees

The Company also provides limited guarantees on certain energy contracts entered into by the retail distribution utilities. The Company's policy is to limit these guarantees to two years or less. As of December 31, 2006 there are $7.0 million of guarantees outstanding and these guarantees extend through October 8, 2008. These guarantees are not required to be recorded under the provisions of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."

Note 4: Energy Supply

Electricity Supply:

As a result of restructuring of the electric utility industry in Massachusetts and New Hampshire, Unitil's customers in both New Hampshire and Massachusetts now have the opportunity to purchase their electric supply from competitive retail suppliers. Retail choice has been successful for Unitil's largest customers. As of December 2006, 45% of Unitil's largest New Hampshire customers representing 18% of total New Hampshire electric sales and 87% of Unitil's largest Massachusetts customers representing 42% of total Massachusetts electric sales are purchasing their electric power supply in the competitive market. However, most residential and small commercial customers continue to purchase their electric supply through the retail distribution utilities. The concentration of the competitive retail market on higher use customers has been a common experience throughout the New England electricity market.

The transition to retail choice required the divestiture of Unitil's existing power supply arrangements and the procurement of replacement supplies, which provided the flexibility for migration of customers to and from utility service. FG&E, UES, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the ISO-NE markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve Unitil's retail customers.

Wyman Unit No. IV—Information with respect to FG&E's ownership in Wyman Unit No. IV, at December 31, 2006, is shown below:

Joint Ownership Unit	State	Proportionate Ownership	Share of Total MW	Company's Net Book Value (000's)
Wyman Unit No. IV	ME	0.1822%	1.13	$30

FG&E continues to have a 0.1822% non-operating ownership interest in the Wyman Unit No. IV (Wyman IV), an oil-fired electric generating station located in Yarmouth, Maine. The lead operating owner of Wyman IV is FPL Energy Wyman IV, LLC. In accordance with the electric industry restructuring in Massachusetts, and pursuant to the generation assets and power supply divestiture process discussed below, FG&E effectively divested its economic interest in Wyman IV when it entered into an agreement to, among other things, sell its entire entitlement in the output from Wyman IV over the expected remaining operating life of the unit. Kilowatt-hour generation and operating expenses associated with Wyman IV are divided on the same basis as ownership. FG&E's proportionate ownership costs in Wyman IV are reflected in the Consolidated Statements of Earnings. Revenues from the entitlement sale of Wyman IV reflect a matching and collection of these costs. Accordingly, the cost associated with FG&E's ownership in Wyman IV does not have a material impact on earnings.

Power Supply Divestiture

Prior to May 1, 2003, UES purchased all of its power supply from Unitil Power under the Unitil System Agreement, a FERC-regulated tariff, which provided for the recovery of all of Unitil Power's power supply-related costs on a cost pass-through basis. Effective May 1, 2003, UES and Unitil Power amended the Unitil System Agreement, such that power sales from Unitil Power to UES ceased, and Unitil Power sold substantially all of its entitlements under the remaining portfolio of power supply contracts. Under the amended Unitil System Agreement, UES continues to pay contract release payments to Unitil Power for stranded costs associated with the portfolio sale and its other ongoing power supply-related costs. Recovery of the contract release payments by UES from its retail customers has been approved by the NHPUC.

Unitil Power divested its long-term power supply contracts to Mirant Corporation (Mirant). The purchase of power to supply UES' Transition Service and Default Service requirements by UES from Mirant was linked to the Unitil Power divestiture. The NHPUC Order completed the state approval process for Unitil's restructuring plan under which UES implemented customer choice for its customers on May 1, 2003. The divested power supply contracts continue through October 2010. On July 14, 2003 Mirant filed for Chapter 11 Bankruptcy protection. Mirant is currently performing all of its contractual obligations to Unitil Power and has completed its power supply obligations to UES. Mirant has satisfied all of its pre-petition claims made by Unitil. On January 3, 2006 Mirant emerged from Chapter 11 Bankruptcy protection.

In March 1999, FG&E completed the sale of its 4.5% interest in the New Haven Harbor Station generating unit. FG&E divested its remaining owned generation assets and long-term power supply contracts to Select Energy, Inc., a subsidiary of Northeast Utilities. Under the Select Energy contract, which was approved by the MDTE in January 2000, and went into effect February 1, 2000, FG&E began selling the entire output from its remaining long-term power supply contracts and the output of its two joint ownership units, Millstone Unit 3 and Wyman Unit No. IV, to Select Energy. Upon the sale of FG&E's share of Millstone Unit 3 in 2001, this portion of the contract sale ceased. Effective with the termination of the Purchased Power Contract between FG&E and Linweave, Inc. on December 1, 2004, this portion of the contract sale also ceased. On December 30, 2005 Select Energy assigned the FG&E contracts portfolio to Constellation Energy Commodities Group effective January 1, 2006. Recovery of all costs associated with the divestiture of the FG&E power supply portfolio has been approved by the MDTE.

In connection with the implementation of retail choice, Unitil Power and FG&E divested substantially all of their long-term power supply contracts and interests in generation assets through the sale of the interest in those assets or the sale of the entitlements to the electricity provided by those generation assets and long-term power supply contracts. UES and FG&E recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDTE, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next four to six years, is $126.1 million as of December 31, 2006 and is included in Regulatory Assets on the Company's Consolidated Balance Sheet (see Regulatory Assets table in Note 1.) Unitil's retail distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

Regulated Energy Supply

In order to provide regulated electric supply as the provider of last resort to their respective retail customers, the retail distribution companies enter into wholesale electric power supply contracts with various wholesale suppliers.

FG&E has power supply contracts with various wholesale suppliers for the provision of Default Service. MDTE policy dictates the pricing structure and duration of each of these contracts. Currently, all Default Service power supply contracts for large general accounts are three months in duration. Default Service power supply contracts for residential and small and medium general service customers are acquired every 6 months, with each 12 month contract providing 50% of the class requirements. The MDTE is investigating alternatives to the current procurement policy for all accounts, other than the large general accounts. This process could potentially lead to the procurement of FG&E Default Service power supply for longer durations in order to provide more price stability for smaller customers throughout Massachusetts for whom competitive retail options are relatively scarce.

UES currently has power supply contracts with various wholesale suppliers for the provision of Default Service to its customers. UES procures Default Service for its largest general service accounts through successive competitive solicitations of three-months duration and procures Default Service for all other customers through a series of two one-year contracts and two three-year contracts with each contract covering 25% of the total requirements of the group. The first two contracts were of 6-months and 18-months duration in order to stagger the start dates of future 1-year and 3-year procurements.

Regional Transmission and Power Markets

FG&E, UES and Unitil Power, as well as virtually all New England electric utilities, are participants in ISO New England Inc., the Regional Transmission Organization (RTO) in New England. The regional bulk power system is operated by an independent corporate entity, ISO-NE. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economic manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. The Tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric marketplace. The formation of an RTO and other wholesale market changes are not expected to have a material impact on Unitil's operations because of the cost recovery mechanisms for wholesale energy and transmission costs approved by the MDTE and NHPUC.

Gas Supply:

FG&E's natural gas customers now have the opportunity to purchase their natural gas supply from third-party vendors, though most customers continue to purchase such supplies at regulated rates through FG&E as the provider of last resort. The costs associated with the acquisition of such wholesale natural gas supplies for customers who do not contract with third-party suppliers are recovered on a pass-through basis through periodically-adjusted rates and are included in Purchased Gas in the Consolidated Statements of Earnings.

FG&E purchases natural gas from domestic and Canadian suppliers under contracts of one year or less, as well as from producers and marketers on the spot market and arranges for the transportation to its distribution facilities under long-term contracts with the Tennessee interstate pipeline. FG&E has a four-year contract for liquefied natural gas (LNG) supply ending in 2008, which was approved by the MDTE. The following tables summarize actual gas purchases by source of supply and the cost of gas sold for the years 2004 through 2006.

Sources of Gas Supply
(Expressed as percent of total MMBtu of gas purchased)

	2006	2005	2004
Natural Gas:			
Domestic firm	**84.2%**	84.8%	85.0%
Canadian firm	**2.0%**	3.4%	5.4%
Domestic spot market	**11.0%**	9.3%	5.9%
Total natural gas	**97.2%**	97.5%	96.3%
Supplemental gas	**2.8%**	2.5%	3.7%
Total gas purchases	**100.0%**	100.0%	100.0%

Cost of Gas Sold

	2006	2005	2004
Cost of gas purchased and sold per MMBtu	**$11.18**	$10.83	$ 8.42
Percent Increase (Decrease) from prior year	**3.2%**	28.7%	17.9%

FG&E has available under firm contract 14,057 MMBtu per day of year-round and seasonal transportation and underground storage capacity to its distribution facilities. As a supplement to pipeline natural gas, FG&E owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

Note 5: Commitments and Contingencies

Regulatory Matters

Overview—Unitil's retail distribution utilities have the franchise to deliver electricity and/or natural gas to all customers in our franchise areas, at rates established under traditional cost of service regulation. Under this regulatory structure, UES and FG&E recover the cost of providing distribution service to their customers based on an historical test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in Massachusetts and New Hampshire, all of Unitil's customers have the opportunity to purchase their electric or natural gas supplies from third-party suppliers. Most small and medium-sized customers, however, continue to purchase such supplies through UES and FG&E as the providers of last resort. UES and FG&E purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual costs of these supplies, without profit or markup, through reconciling, pass-through rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, Unitil Power and FG&E divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. UES and FG&E recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDTE, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next four to six years, is $126.1 million as of December 31, 2006 and is included in Regulatory Assets on the Company's Consolidated Balance Sheet (See Regulatory Assets table in Note 1.) Unitil's retail distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

FG&E—Electric Division—FG&E provides electric distribution service to customers under unbundled distribution rates approved by the MDTE. Its current retail electric distribution rates were approved by the MDTE in 2002. FG&E is required, as the provider of last resort, to purchase and provide power through Default Service for retail customers who chose not to buy, or were unable to purchase, energy from a competitive supplier. Prices for Default Service are set periodically based on market solicitations as approved by the MDTE. As of December 31, 2006, approximately 53 percent of FG&E's electric load was served by Default Service. The remaining portion was served by competitive third party suppliers. The vast majority of customers being served by competitive third party suppliers are large C&I customers. Most residential and small commercial customers continue to purchase their electric supply through the retail distribution utilities. The concentration of the competitive retail market on higher use customers has been a common experience throughout the New England electricity market.

As a result of the restructuring and the divestiture of FG&E's owned generation assets and buyout of FG&E's power supply obligations, Regulatory Assets on the Company's balance sheets include the following three categories: Power Supply Buyout Obligations associated with the divestiture of its long-term purchase power obligations; Recoverable Deferred Restructuring Charges resulting from the restructuring legislation's seven year rate cap; and Recoverable Generation-related Assets associated with the divestiture of its owned generation plant. FG&E earns carrying charges on the majority of the unrecovered balances of the Recoverable Deferred Restructuring Charges. The value of FG&E's Recoverable Deferred Restructuring Charges and Recoverable Generation-related Assets was approximately $33.3 million at December 31, 2006, and $34.4 million at December 31, 2005, and is expected to be recovered in FG&E's rates over the next four to six years. In addition, as of December 31, 2006, FG&E had recorded on its balance sheet $50.0 million as Power Supply Buyout Obligations and corresponding Regulatory Assets associated with the divestiture of its long-term purchase power contracts, which are included in Unitil's consolidated financial statements, and on which carrying charges are not earned as the timing of cash disbursements and cash receipts associated with these long-term obligations is matched through rates (See Note 1.)

On March 7, 2006, the MDTE approved FG&E's 2003 and 2004 annual reconciliation of costs and revenues for Transition, Transmission, Standard Offer Service, and Default Service filed under its restructuring plan. FG&E's 2005 and 2006 filings, which are subject to investigation, are pending. The Company expects that these filings will be approved without material changes or adjustments.

FG&E—Gas Division—FG&E provides natural gas delivery service to its customers on a firm or interruptible basis under unbundled distribution rates approved by the MDTE. Its current retail distribution rates were approved by the MDTE in 2002. FG&E's customers may purchase gas supplies from third-party vendors or purchase their gas from FG&E as the provider of last resort. FG&E collects its gas supply costs through a seasonal reconciling CGAC and recovers other related costs through a reconciling Local Distribution Adjustment Clause.

On January 26, 2007, the MDTE approved a rate Settlement Agreement (Settlement) which FG&E and the Attorney General of Massachusetts had signed and filed with the MDTE for FG&E's Gas Division on November 29, 2006. Under the Settlement, FG&E will phase-in gas distribution rate changes with an initial rate increase of $1.2 million as of February 1, 2007, and an additional $1.0 million increase on November 1, 2007. The Settlement also includes agreement on several other rate matters and service quality performance measures for the company's gas division in the areas of safety, customer service and satisfaction.

On September 7, 2006, the MDTE issued an order allowing FG&E to recover its actual gas and electric supply-related bad debt effective December 1, 2005. Prior to this final approval, FG&E had recovered supply-related bad debt based on a fixed rate formula that was resulting in a significant underrecovery of these costs. On September 27, 2006, the Attorney General filed a Petition for Appeal with the Massachusetts Supreme Judicial Court seeking to set aside the MDTE's order of September 7, 2006. FG&E intends to support the MDTE's order but the Company cannot predict the outcome of the Attorney General's appeal at this time.

UES—UES provides electric distribution service to its customers pursuant to rates approved by the NHPUC. Its current retail electric distribution rates were approved by the NHPUC in 2006 under the Settlement Agreement discussed below. As the provider of last resort, UES also provides its customers with electric power through Default Service at rates which reflect UES' costs for wholesale supply with no profit or markup. UES procures Default Service power for its larger commercial and industrial customers on a quarterly basis, and for its smaller commercial and residential customers through a portfolio of longer term contracts on a semi-annual basis. UES recovers its costs for this service on a pass-through basis through reconciling rate mechanisms. As of December 31, 2006, approximately 80 percent of UES' electric load was served by Default Service. The remaining portion was served by competitive third party suppliers. The vast majority of customers being served by competitive third party suppliers are large C&I customers. Most residential and small commercial customers continue to purchase their electric supply through the retail distribution utilities. The concentration of the competitive retail market on higher use customers has been a common experience throughout the New England electricity market.

In the 2002 restructuring settlement, the NHPUC approved the divestiture of the long-term power supply portfolio by Unitil Power and tariffs for UES for stranded cost recovery, including certain charges that are subject to annual or periodic reconciliation or future review. As of December 31, 2006, UES had recorded on its balance sheets $42.6 million as Power Supply Contract Obligations and corresponding Regulatory Assets associated with these long-term purchase power stranded costs, which are included in Unitil Corporation's consolidated financial statements. These Power Supply Contract Obligations are expected to be recovered principally over a period of approximately four years. The Company does not earn carrying charges on these regulatory assets as the timing of cash receipts and cash disbursements associated with these long-term obligations is matched through rates.

On March 17, 2006, UES made its third annual reconciliation and rate filing with the NHPUC under its restructuring plan, effective May 1, 2006, including reconciliation of prior year costs and revenues, power supply and power supply-related stranded costs. The NHPUC approved the filing on April 28, 2006.

On October 6, 2006, UES received approval from the NHPUC of a Settlement Agreement (Agreement) resolving all issues in its electric distribution base rate case filed in November, 2005. The terms of the Agreement provide for an increase in base distribution rates of $2.3 million annually, effective as of January 1, 2006. Additionally, the Agreement authorizes two step increases in base distribution rates, related to utility plant additions in 2006, of approximately $0.4 million and $0.1 million annually, effective as of November 1, 2006 and May 1, 2007, respectively. Also, the Agreement provides for the recovery of approximately $0.3 million annually of supply-related operating and administrative costs through default energy service rates and a reduction of approximately $0.6 million in annual depreciation expense, primarily reflecting an increase in utility plant and equipment average service lives. The stipulated rate of return under the settlement is 8.70%, including a return on equity of 9.67%. The Agreement also authorizes a temporary rate surcharge for recovery of certain rate case expenses and recoupment of the authorized distribution rate increase from January through October 2006.

FERC—Wholesale Power Markets—FG&E, UES and Unitil Power, as well as virtually all New England electric utilities, are participants in ISO New England Inc., the RTO in New England. The regional bulk power system is operated by an independent corporate entity, ISO-NE. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economic manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England are performed on a regional basis. The Tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric marketplace. The formation of an RTO and other wholesale market changes are not expected to have a material impact on Unitil’s operations because of the cost recovery mechanisms for wholesale energy and transmission costs approved by the MDTE and NHPUC.

Environmental Matters

The Company’s past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. The Company believes it is in compliance with all applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2006, there are no material losses reasonably possible in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

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

FG&E has recovered the environmental response costs incurred at this former MGP site in gas rates pursuant to an MDTE approved settlement agreement between the Massachusetts Attorney General and the natural gas utilities of the Commonwealth of Massachusetts (Agreement). The Agreement allows FG&E to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs. In addition FG&E has filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. Any recovery that FG&E receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between FG&E and its gas customers.

FG&E is in the process of developing long range plans for a feasible permanent remediation solution for the Sawyer Passway site, including alternatives for re-use of the site. Included on the Company's Consolidated Balance Sheet at December 31, 2006 in Environmental Obligations is $12.0 million related to estimated future clean up costs for permanent remediation of the site. A corresponding regulatory asset was recorded to reflect the future rate recovery for these costs. The amounts recorded do not assume any amounts are recoverable from insurance companies or other third parties.

The Company's ultimate liability for future environmental remediation costs may vary from estimates, which may be adjusted as new information or future developments become available. Based on the Company's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, the Company does not believe that these environmental costs will have a material adverse effect on the Company's consolidated financial position or results of operations.

Note 6: Bad Debts

The following table shows the balances and activity in the Company's Allowance for Doubtful Accounts for 2004 – 2006.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at Beginning of Period	Additions		Accounts Written Off	Balance at End of Period
		(A) Provision	Recoveries		
Year Ended December 31, 2006					
Electric	**$342,791**	**$1,963,222**	**$136,399**	**$1,178,310**	**$1,264,102**
Gas	**110,031**	**1,325,650**	**134,802**	**1,132,324**	**438,159**
Other	**16,926**	**29,313**	**1,780**	**13,493**	**34,526**
	$469,748	**$3,318,185**	**$272,981**	**$2,324,127**	**$1,736,787**
Year Ended December 31, 2005					
Electric	$392,824	$ 714,917	$116,290	$ 881,240	$ 342,791
Gas	89,602	721,171	116,366	817,108	110,031
Other	18,297	9,602	—	10,973	16,926
	$500,723	$1,445,690	$232,656	$1,709,321	$ 469,748
Year Ended December 31, 2004					
Electric	$395,432	$ 821,077	$121,974	$ 945,659	$ 392,824
Gas	132,964	524,905	96,411	664,678	89,602
Other	13,080	10,500	—	5,283	18,297
	$541,476	$1,356,482	$218,385	$1,615,620	$ 500,723

(A) In 2006, the Company recorded a provision for the energy commodity portion of bad debts of $1.7 million. This provision was recognized in Purchased Electricity and Purchased Gas expense as the associated electric and gas utility revenues were billed. Purchased Electricity and Purchased Gas costs are recovered from customers through periodic rate reconciling mechanisms. Prior to 2006, the commodity portion of bad debt expense was recognized in Purchased Electricity and Purchased Gas expense when the accounts were actually written off from accounts receivable.

Note 7: Income Taxes

In June 2006, the FASB issued FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in enterprise's financial statements. FIN 48 prescribes a "more-likely-than-not" recognition threshold for the recognition and measurement of the benefits of a tax position taken or expected to be taken. FIN 48 applies to all tax positions related to income taxes subject to FAS 109. This includes tax positions considered to be routine as well as those with a high degree of uncertainty such as tax-advantaged transactions. FIN 48 effectively amends SFAS No. 5, such that all references to income taxes in SFAS No. 5 have been deleted and FIN 48 is now the primary guidance in accounting for uncertainty in income taxes. FIN 48 creates a single model to address accounting for uncertainty in tax positions. Under FIN 48, tax positions accounted for under FAS 109 will be evaluated for recognition, derecognition, and classification and the cumulative affect of adopting FIN 48 may be recorded as an adjustment to retained earnings.

FIN 48 requires disclosures of items and amounts that would affect the Company's effective tax rate in its statement of earnings. FIN 48 also provides guidance on disclosures for interim reporting periods for accounting for income taxes, interest and penalties. The Company will adopt FIN 48 as of January 1, 2007, as required. The Company does not expect that the adoption of FIN 48 will have a significant impact on the Company's financial position and results of operations.

Federal Income Taxes were provided for the following items for the years ended December 31, 2006, 2005 and 2004, respectively:

	2006	**2005**	**2004**
Current Federal Tax Provision (000's):			
Operating Income	**$3,448**	$3,671	$ 438
Total Current Federal Tax Provision	**3,448**	3,671	438
Deferred Federal Tax Provision (000's)			
Property Plant and Equipment	**(656)**	(841)	2,669
Abandoned Properties	**—**	(796)	(769)
Accrued Revenue	**795**	1,296	1,779
Deferred Compensation and Pensions	**271**	299	(3)
Regulatory Assets and Liabilities	**(5)**	—	(194)
Net Operating Loss Carryforward	**—**	—	92
Alternative Minimum Tax	**—**	—	(355)
Other, net	**(87)**	(180)	(151)
Total Deferred Federal Tax Provision (Benefit)	**318**	(222)	3,068
Total Federal Tax Provision	**$3,766**	$3,449	$3,506

The components of the Federal and State income tax provisions reflected as operating expenses in the accompanying consolidated statements of earnings for the years ended December 31, 2006, 2005 and 2004 are shown in the table below. In addition to the provisions for state income taxes, the Company recorded provisions of $211,000, $179,000 and $179,000 in 2006, 2005 and 2004, respectively for state Business Enterprise taxes which are included in Local Property and Other Taxes on the consolidated statements of earnings.

Federal and State Tax Provisions (000's)	2006	2005	2004
Federal			
Current	**$3,448**	$3,671	$ 438
Deferred	**318**	(222)	3,068
Total Federal Tax Provision	**3,766**	3,449	3,506
State			
Current	**337**	844	602
Deferred	**163**	(18)	98
Total State Tax Provision	**500**	826	700
Total Provision for Federal and State Income Taxes	**$4,266**	$4,275	$4,206

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

	2006	2005	2004
Statutory Federal Income Tax Rate	**34%**	34%	34%
Income Tax Effects of:			
State Income Taxes, Net	**5**	5	5
Abandoned Property	**—**	(6)	(6)
Utility Plant Differences	**(4)**	—	1
Other, Net	**1**	—	—
Effective Income Tax Rate	**36%**	33%	34%

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

Deferred Income Taxes (000's)	2006	2005
Property, Plant and Equipment	**$ 27,209**	$27,186
Accrued Revenue	**14,687**	13,204
Regulatory Assets and Liabilities	**8,905**	8,700
Retirement Benefit Obligations	**(17,644)**	1,615
Other	**1,369**	1,592
Total Deferred Income Tax Liabilities	**$ 34,526**	$52,297

Note 8: Retirement Benefit Plans

The Company provides certain pension and postretirement benefit plans for its retirees and current employees including defined benefit pension plans, postretirement health and welfare plans, a supplemental executive retirement plan and an employee 401(k) savings plan.

In September 2006, the FASB issued SFAS No. 158 which requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding

Regulatory Asset, to recognize the future collection of these obligations in electric and gas retail rates. See below for a table showing the incremental effect of applying SFAS No. 158 on individual line items of the Company's Consolidated Balance Sheet at December 31, 2006.

Incremental Effect of Applying SFAS No. 158—The table below shows the incremental effect of applying SFAS No. 158 on individual line items of the Company's Consolidated Balance Sheet at December 31, 2006.

Incremental Effect of Applying SFAS No. 158
On Individual Line Items of the Company's Consolidated Balance Sheet
December 31, 2006
(000's)

	Before Application of SFAS No. 158	SFAS No. 158 Adjustments	After Application of SFAS No. 158
Prepaid Pension	$ 11,000	$(11,000)	$ —
Regulatory Assets	5,261	26,455	31,716
Total Assets	467,972	15,455	483,427
Other Current Liabilities	$ —	$ 70	$ 70
Retirement Benefit Obligations	13,969	35,694	49,663
Deferred Income Taxes	2,665	(20,309)	(17,644)
Total Capitalization and Liabilities	467,972	15,455	483,427

On August 17, 2006, the Pension Protection Act of 2006 (PPA) was signed into law. Included in the PPA are new minimum funding rules which will go into effect for plan years beginning in 2008. The funding target will be 100% of a plan's liability with any shortfall amortized over seven years, with lower (92% – 100%) funding targets available to well-funded plans during the transition period. The Company expects to contribute approximately $4.0 million to fund its pension plan in 2007.

Defined Benefit Pension Plan—The Company sponsors the Unitil Corporation Retirement Plan (the Plan), a defined benefit pension plan covering substantially all of its employees. Under the Plan, retirement benefits are based upon an employee's level of compensation and length of service.

On October 27, 2004 the MDTE approved FG&E's request for a reconciliation rate adjustment mechanism (the Pension / PBOP Adjustment Factor (PAF)) to recover the costs associated with the Company's pension and PBOP costs on an annually reconciling basis. As a result of this order, FG&E records a regulatory asset to recognize the deferral for the difference between the level of pension and PBOP expenses that are currently included in its base rates and the amounts that are required to be recorded in accordance with SFAS No. 87 and SFAS No. 106 and amortizes increases and/or decreases in that deferral balance into the PAF for recovery over a three year period.

On October 6, 2006, the NHPUC approved a Settlement Agreement, resolving all issues in UES' electric distribution base rate case filed in November 2005. As part of the Settlement Agreement, UES is allowed to recover its pension and PBOP expenses in base rates. Under the Settlement Agreement UES will amortize its deferred pension costs as these amortization costs are recovered over a six year period in base rates.

The following tables show the components of net periodic pension cost (NPPC), as well as key actuarial assumptions used in determining the various pension plan values:

Components of NPPC (000's)	2006	2005	2004
Service Cost	**$ 1,800**	$ 1,458	$ 1,302
Interest Cost	**3,153**	3,085	3,028
Expected Return on Plan Assets	**(3,775)**	(3,404)	(3,393)
Amortization of Prior Service Cost	**107**	107	101
Amortization of Net Loss	**1,324**	1,146	944
Subtotal NPPC	**2,609**	2,392	1,982
Amounts Capitalized and Deferred	**(1,014)**	(1,751)	(1,926)
NPPC Recognized	**$ 1,595**	$ 641	$ 56

The estimated amortization related to Actuarial Loss and Prior Service Cost included in NPPC over the next fiscal year is $1.4 million.

Key Assumptions (Weighted Average)	2006	2005	2004
Used to Determine Benefit Obligations at December 31:			
Discount Rate	**5.50%**	5.50%	6.50%
Rate of Compensation Increase	**3.50%**	3.50%	3.50%
Used to Determine NPPC for years ended December 31:			
Discount Rate	**5.50%**	6.00%	6.50%
Expected Long-Term Rate of Return on Plan Assets	**8.50%**	8.50%	8.75%
Rate of Compensation Increase	**3.50%**	3.50%	3.50%

The following table represents information on the Plan's Projected Benefit Obligation (PBO), fair value of plan assets and the Plan's funded status. The PBO includes expectations of future employee service and compensation increases.

Change in PBO (000's)	2006	2005
PBO at Beginning of Year	**$ 58,586**	$ 49,757
Service Cost	**1,800**	1,458
Interest Cost	**3,153**	3,085
Plan Amendments	**—**	110
Benefits Paid	**(2,476)**	(2,404)
Actuarial Loss	**964**	6,580
PBO at End of Year	**$ 62,027**	$ 58,586
Change in Plan Assets (000's):		
Fair Value of Plan Assets at Beginning of Year	**$ 44,535**	$ 42,304
Actual Return on Plan Assets	**4,958**	2,135
Employer Contributions	**2,510**	2,500
Benefits Paid	**(2,476)**	(2,404)
Fair Value of Plan Assets at End of Year	**$ 49,527**	$ 44,535
PBO and Funded Status (000's):		
Fair Value of Plan Assets	**$ 49,527**	$ 44,535
PBO	**62,027**	58,586
Funded Status	**(12,500)**	(14,051)
Unrecognized Actuarial Loss and Prior Service Cost	**—**	25,150
Prepaid (Unfunded) Pension Obligation	**$(12,500)**	$ 11,099

The following table represents the Plan's weighted-average investment asset allocations at December 31:

	Target Allocation 2007	Actual Allocation at December 31		
		2006	2005	2004
Equity Securities	58-62%	**61%**	60%	61%
Debt Securities	38-42%	**39%**	40%	39%
Real Estate and Other	0-2%	**0%**	0%	0%
Total		**100%**	**100%**	**100%**

The desired investment objective is a long-term rate of return on assets that is approximately 6% greater than the assumed rate of inflation as measured by the Consumer Price Index. The target rate of return for the Plan has been based upon an analysis of historical returns supplemented with an economic and structural review for each asset class.

The following tables represent Plan contributions and benefit payments. There were no participant contributions.

(000's)	2006	2005	2004
Employer Contributions	**$2,510**	$2,500	$2,000
Benefit Payments	**$2,476**	$2,404	$2,280

Estimated Future Benefit Payments					
2007	2008	2009	2010	2011	2012-2016
$2,730	$2,873	$2,918	$3,115	$3,207	$18,422

Postretirement Benefits—The Company also sponsors the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan) primarily to provide health care and life insurance benefits to employees and retirees. The Company has established Voluntary Employee Benefit Trusts (VEBT), into which it funds contributions to the PBOP Plan.

In January 2004 and May 2004, the FASB issued, respectively, Statement No. 106-1 (SFAS No. 106-1) and Statement No. 106-2 (SFAS No. 106-2), "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", (the Act). The Act includes a subsidy to a plan sponsor that is based on 28 percent of an individual beneficiary's annual prescription drug costs between $250 and $5,000 and the opportunity for a retiree to obtain a prescription drug benefit under Medicare. SFAS No. 106-1 and SFAS No. 106-2 require the disclosure of the effects, if any, of the Act on the reported measure of the accumulated postretirement benefit obligation and how that effect has been, or will be, reflected in the net postretirement benefit costs of current or subsequent periods. On January 28, 2005, the final Medicare Part D Prescription Drug Rules were posted to the Federal Register. Based on these rules, the Company's estimated PBOP Projected Benefit Obligation was reduced by $5.1 million. Also, the Company has estimated that its annual PBOP costs will be reduced by $0.4 million under the Act. These reductions are reflected in the Company's Consolidated Financial Statements. The Company's health care insurance provider has concluded that the Company's PBOP Plan is equal to or better than standard Medicare Part D coverage. Additionally, the Company's recognition of the Act is not expected to have any impact on the rate of participation in the PBOP Plan or per capita claims.

As discussed above, on October 27, 2004 the MDTE approved FG&E's request for a reconciliation rate adjustment mechanism, the PAF, to recover the costs associated with the Company's pension and PBOP costs on an annually reconciling basis. As discussed above, on October 6, 2006, the NHPUC approved a Settlement Agreement, resolving all issues in UES' electric distribution base rate case filed in November 2005. As part of the Settlement Agreement, UES is allowed to recover its pension and PBOP expenses in base rates.

The components of net periodic postretirement benefit cost (NPPBC) are as follows:

Components of NPPBC (000's)	2006	2005	2004
Service Cost	**$ 1,283**	$ 993	$ 899
Interest Cost	**2,028**	1,795	1,827
Expected Return on Plan Assets	**(194)**	(41)	—
Amortization of Prior Service Cost	**1,360**	1,401	1,458
Amortization of Transition Obligation	**21**	21	21
Amortization of Net Loss	**160**	—	—
Subtotal NPPC	**4,658**	4,169	4,205
Amounts Capitalized and Deferred	**(2,217)**	(2,051)	(2,498)
NPPBC Recognized	**$ 2,441**	$ 2,118	$ 1,707

The estimated amortization related to Actuarial Loss and Prior Service Cost included in NPPBC over the next fiscal year is $1.5 million.

The following table includes assumptions used in determining the various PBOP values.

Key Assumptions (Weighted Average)	2006	2005	2004
Used to Determine Benefit Obligations at December 31:			
Discount Rate	**5.50%**	5.50%	6.50%
Rate of Compensation Increase	**N/A**	N/A	N/A
Health Care Cost Trend Rate Assumed for Next Year	**8.50%**	9.00%	8.00%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%	4.00%
Year That the Health Care Cost Trend Rate Reaches the Ultimate Trend Rate	**2016**	2016	2013
Used to Determine NPPBC for years ended December 31:			
Discount Rate	**5.50%**	6.00%	6.50%
Expected Long-Term Rate of Return on Plan Assets	**8.50%/5.50%**[1]	8.50%/5.50%[1]	N/A
Rate of Compensation Increase	**N/A**	N/A	N/A
Health Care Cost Trend Rate Assumed for Next Year	**9.00%**	8.00%	9.00%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%	4.00%
Year That the Health Care Cost Trend Rate Reaches the Ultimate Trend Rate	**2016**	2013	2013

(1) Funding of the PBOP Plan is made into two VEBT's; one is a union VEBT and the other is a non-union VEBT. The expected long-term rate of return on plan assets for the union VEBT is 8.50%. The non-union VEBT is subject to income taxes and therefore the expected long-term rate of return on plan assets is 5.50%, reflecting the effect of taxes.

Assumed health care cost trend rates have a significant effect on the amounts reported. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

1-Percentage Point Increase (000's)	2006	2005	2004
Effect on Total of Service and Interest Cost	**$ 683**	$ 526	$ 564
Effect on Postretirement Benefit Obligation	**$ 6,381**	$ 5,917	$ 4,079
1-Percentage Point Decrease (000's)			
Effect on Total of Service and Interest Cost	**$ (530)**	$ (413)	$ (438)
Effect on Postretirement Benefit Obligation	**$(5,091)**	$(4,737)	$(3,290)

The following table represents information on the PBOP Plan's fair value of plan assets and the PBOP Plan's funded status. The PBO includes expectations of future employee service and compensation increases.

Change in PBO (000's)	2006	2005
PBO at Beginning of Year	**$ 37,528**	$ 27,917
Service Cost	**1,283**	993
Interest Cost	**2,028**	1,795
Plan Amendments	**—**	(1,797)
Benefits Paid	**(1,540)**	(1,334)
Actuarial (Gain) or Loss	**(1,192)**	9,954
PBO at End of Year	**$ 38,107**	$ 37,528
Change in Plan Assets (000's):		
Fair Value of Plan Assets at Beginning of Year	**$ 2,304**	$ 1,101
Actual Return on Plan Assets	**78**	37
Employer Contributions	**2,210**	2,500
Benefits Paid	**(1,540)**	(1,334)
Fair Value of Plan Assets at End of Year	**$ 3,052**	$ 2,304
Obligation and Funded Status (000's):		
Fair Value of Plan Assets	**$ 3,052**	$ 2,304
PBO	**38,107**	37,528
Funded Status	**(35,055)**	(35,224)
Unrecognized Actuarial Loss and Prior Service Cost	**—**	30,339
(Unfunded) PBOP Obligation	**$(35,055)**	$ (4,885)

The following tables represent PBOP contributions and benefit payments made in 2004 – 2006 and estimated future benefit payments. There were no participant contributions.

(000's)	Expected 2007	2006	2005	2004
Employer Contributions	**$2,500**	**$2,210**	$2,500	$2,355
Benefit Payments	**$1,398**	**$1,540**	$1,334	$1,257

Estimated Future Benefit Payments				
2008	2009	2010	2011	2012-2016
$1,496	$1,585	$1,758	$1,898	$11,019

Supplemental Executive Retirement Plan—The Company also sponsors an unfunded retirement plan, the Unitil Corporation Supplemental Executive Retirement Plan (the SERP), with participation limited to executives selected by the Board of Directors. The cost associated with the SERP amounted to approximately $305,000, $190,000 and $194,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

The components of net periodic SERP cost are as follows:

Components of Net Periodic SERP Cost (000's)	2006	2005	2004
Service Cost	**$148**	$ 90	$ 89
Interest Cost	**103**	80	75
Amortization of Prior Service Cost	**(2)**	(2)	3
Amortization of Transition Obligation	**17**	17	17
Amortization of Net Loss	**39**	5	10
Net Periodic SERP Cost	**$305**	$190	$194

The estimated amortization related to Actuarial Loss and Prior Service Cost included in Net Periodic SERP Cost over the next fiscal year is less than $0.1 million.

The following table includes information regarding Unitil's SERP costs as well as key actuarial assumptions:

Additional Information (000's):	2006	2005	2004
Accumulated Benefit Obligation	**$ 670**	$ 800	$ 673
Weighted-Average Assumptions			
Used to Determine Benefit Obligations at December 31:			
Discount Rate	**5.50%**	5.50%	6.50%
Rate of Compensation Increase	**3.50%**	3.50%	3.50%
Used to Determine Net Periodic SERP Cost for years ended December 31:			
Discount Rate	**5.50%**	6.50%	6.50%
Expected Long-Term Rate of Return on Plan Assets	**N/A**	N/A	N/A
Rate of Compensation Increase	**3.50%**	3.50%	3.50%

The following table represents information on the SERP's Projected Benefit Obligation (PBO), fair value of plan assets and the plan's funded status.

Change in PBO (000's)	2006	2005
PBO at Beginning of Year	**$1,910**	$1,218
Service Cost	**148**	90
Interest Cost	**103**	80
Benefits Paid	**(72)**	(72)
Actuarial (Gain) or Loss	**90**	594
PBO at End of Year	**$2,179**	$1,910
Change in Plan Assets (000's):		
Fair Value of Plan Assets at Beginning of Year	**$ —**	$ —
Actual Return on Plan Assets	**—**	—
Employer Contributions	**72**	72
Benefits Paid	**(72)**	(72)
Fair Value of Plan Assets at End of Year	**$ —**	$ —

Obligation and Funded Status (000's):	2006	2005
Fair Value of Plan Assets	**$ —**	$ —
PBO	**2,179**	1,910
Funded Status	**(2,179)**	(1,910)
Unrecognized Prior Service Cost and Actuarial Loss	**—**	767
(Unfunded) SERP Liability	**$(2,179)**	$(1,143)

The following tables represent SERP contributions and benefit payments made in 2004 – 2006 and estimated future benefit payments. There were no participant contributions.

(000's)	2006	2005	2004
Employer Contributions	**$72**	$72	$72
Benefit Payments	**$72**	$72	$72

Estimated Future Benefit Payments					
2007	2008	2009	2010	2011	2012-2016
$71	$69	$66	$63	$61	$1,256

Employee 401(k) Tax Deferred Savings Plan—The Company sponsors the Unitil Corporation Tax Deferred Savings and Investment Plan (the 401(k)) under Section 401(k) of the Internal Revenue Code, covering substantially all of the Company's employees. Participants may elect to defer current compensation by contributing to the plan. The Company matches contributions, with a maximum matching contribution of 3% of current compensation. Employees may direct, at their sole discretion, the investment of their savings plan balances (both the employer and employee portions) into a variety of investment options, including a Company Common Stock fund. Participants are 100% vested in contributions made on their behalf, once they have completed three years of service. The Company's share of contributions to the plan was $528,000, $503,000 and $499,000 for the years ended December 31, 2006, 2005, and 2004, respectively.

Note 9: Earnings Per Share

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

(000's except share and per share data)	2006	2005	2004
Earnings Available to Common Shareholders	**$ 7,900**	$ 8,397	$ 8,011
Weighted Average Common Shares Outstanding—Basic	**5,597,465**	5,551,420	5,509,321
Plus: Diluted Effect of Incremental Shares	**14,269**	16,298	15,514
Weighted Average Common Shares Outstanding—Diluted	**5,611,734**	5,567,718	5,524,835
Earnings per Share—Diluted	**$ 1.41**	$ 1.51	$ 1.45

Weighted average options to purchase 72,500, 72,500 and 35,000 shares of Common Stock were outstanding during 2006, 2005 and 2004, respectively, but were not included in the computation of Weighted Average Common Shares Outstanding for purposes of computing diluted earnings per share, because the effect would have been antidilutive.

Note 10: Segment Information

Unitil reported four segments: utility electric operations, utility gas operations, other, and non-regulated. Unitil is engaged principally in the retail sale and distribution of electricity in New Hampshire and both electricity and natural gas service in Massachusetts through its retail distribution subsidiaries UES and FG&E. Unitil Resources is the Company's wholly-owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly-owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to large commercial and industrial customers in the northeastern United States. Unitil Realty and Unitil Service provide centralized facilities, operations and administrative services to support the affiliated Unitil companies.

Unitil Realty, Unitil Service and the holding company are included in the "Other" column of the table below. Unitil Service provides centralized management and administrative services, including information systems management and financial record keeping. Unitil Realty owns certain real estate, principally the Company's corporate headquarters. The earnings of the holding company are principally derived from income earned on short-term investments and real property owned for Unitil and its subsidiaries' use. Unitil Resources and Usource are included in the Non-Regulated column below.

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

The following table provides significant segment financial data for the years ended December 31, 2006, 2005 and 2004.

Year Ended December 31, 2006 (000's)	**Electric**	**Gas**	**Other**	**Non-Regulated**	**Total**
Revenues	**$225,154**	**$ 33,271**	**$ —**	**$2,436**	**$260,861**
Interest Income	**2,926**	**129**	**405**	**—**	**3,460**
Interest Expense	**9,508**	**1,137**	**580**	**76**	**11,301**
Depreciation & Amortization Expense	**11,213**	**3,489**	**1,301**	**66**	**16,069**
Income Tax Expense (Benefit)	**4,096**	**142**	**147**	**(119)**	**4,266**
Segment Profit (Loss)	**6,984**	**481**	**634**	**(199)**	**7,900**
Segment Assets	**346,744**	**113,065**	**22,685**	**933**	**483,427**
Capital Expenditures	**26,286**	**7,186**	**154**	**16**	**33,642**
Year Ended December 31, 2005 (000's)					
Revenues	$197,339	$ 32,767	$ —	$2,039	$232,145
Interest Income	2,516	47	217	—	2,780
Interest Expense	8,144	858	569	50	9,621
Depreciation & Amortization Expense	14,514	3,098	1,443	68	19,123
Income Tax Expense (Benefit)	3,888	426	(41)	2	4,275
Segment Profit (Loss)	6,957	911	536	(7)	8,397
Segment Assets	328,208	98,184	22,516	1,173	450,081
Capital Expenditures	17,211	6,936	220	—	24,367
Year Ended December 31, 2004 (000's)					
Revenues	$183,889	$ 28,685	$ —	$1,563	$214,137
Interest Income	2,051	130	166	—	2,347
Interest Expense	7,601	906	595	19	9,121
Depreciation & Amortization Expense	14,431	2,709	1,622	68	18,830
Income Tax Expense (Benefit)	3,729	507	58	(88)	4,206
Segment Profit (Loss)	6,649	1,202	300	(140)	8,011
Segment Assets	340,800	94,239	21,069	902	457,010
Capital Expenditures	17,566	5,111	245	—	22,922

Note 11: Quarterly Financial Information (unaudited; 000's except per share data)

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

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	2006	2005	2006	2005	2006	2005	2006	2005
Total Operating Revenues	**$70,703**	$60,000	**$60,226**	$51,439	**$66,287**	$56,654	**$63,645**	$64,052
Operating Income	**$ 3,935**	$ 4,504	**$ 3,329**	$ 3,311	**$ 3,812**	$ 3,240	**$ 4,779**	$ 4,486
Net Income Applicable to Common	**$ 2,013**	$ 2,671	**$ 1,401**	$ 1,497	**$ 1,792**	$ 1,562	**$ 2,694**	$ 2,667
	Per Share Data:							
Earnings Per Common Share	**$ 0.36**	$ 0.48	**$ 0.25**	$ 0.27	**$ 0.32**	$ 0.28	**$ 0.48**	$ 0.48
Dividends Paid Per Common Share	**$ 0.345**	$ 0.345	**$ 0.345**	$ 0.345	**$ 0.345**	$ 0.345	**$ 0.345**	$ 0.345

On November 4, 2005, UES filed a request for an electric base rate increase with the NHPUC. On February 3, 2006, the NHPUC issued an order setting temporary rates based on which any final rate change approved by the NHPUC would be reconciled to be effective as of January 1, 2006. On August 24, 2006 a settlement agreement resolving the base rate case among UES, the Office of the Consumer Advocate, and the NHPUC Staff was filed, and on October 6, 2006, the agreement was approved by the NHPUC.

In the second quarter of 2006, when the rate filing was under review, the Company recorded an estimate of expected revenue and expenses for the first six months of 2006 based on the temporary rate order effective date and the current status of proceedings. In the third quarter of 2006, based on the approval by the NHPUC of the settlement agreement, the Company recorded final revenue and expense figures, aligning previously estimated amounts with the settlement agreement.

In the Company's judgment, the impact of the estimated and final revenues and expenses recorded in 2006 related to this rate proceeding did not have a material impact on the interim quarterly results as reported on Form 10-Q and the Company's current year operating income.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). In addition, management is required to report their assessment, including their evaluation criteria, on the design and operating effectiveness of the Company's internal control over financial reporting in Form 10-K.

The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. The Company's internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes policies and procedures which provide reasonable assurances that transactions are properly initiated, authorized, recorded, reported and disclosed, and provide reasonable assurances regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During 2006, management conducted an assessment of the Company's internal control over financial reporting reflected in the financial statements, based upon criteria established in the "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment, which included a comprehensive review of the design and operating effectiveness of the Company's internal control over financial reporting, management believes the Company's internal control over financial reporting is designed and operating effectively as of December 31, 2006.

Vitale, Caturano and Company, an independent registered public accounting firm, has audited management's assessment of the effectiveness of the internal control over financial reporting as stated in their report which is included herein.

Item 9B. Other Information

None

PART III

Item 10. Directors and Executive Officers of the Registrant

Information required by this Item is set forth in Part I, Item 1 of this Form 10-K. Information regarding the Company's Code of Ethics is set forth in the "Corporate Governance and Policies of the Board" section of the 2006 Proxy Statement as filed with the Securities and Exchange Commission.

Item 11. Executive Compensation

Information required by this Item is set forth in the "Compensation Discussion and Analysis" and "Compensation of Named Executive Officers" sections of the 2006 Proxy Statement as filed with the Securities and Exchange Commission.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item is set forth in the "Beneficial Ownership" and "As to the Election of Directors" sections of the 2006 Proxy Statement as filed with the Securities and Exchange Commission, as well as the Equity Compensation Plan Benefit Information table in Part II, Item 5 of this Form 10-K.

Item 13. Certain Relationships and Related Transactions

None

Item 14. Principal Accountant Fees and Services

Information required by this Item is set forth in the "Principal Accountant Fees and Services" section of the 2006 Proxy Statement as filed with the Securities and Exchange Commission.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) and (2) – **LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES**

The following financial statements are included herein under Part II, Item 8, Financial Statements and Supplementary Data:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets—December 31, 2006 and 2005
- Consolidated Statements of Earnings for the years ended December 31, 2006, 2005, and 2004
- Consolidated Statements of Capitalization—December 31, 2006 and 2005
- Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005, and 2004
- Consolidated Statements of Changes in Common Stock Equity for the years ended December 31, 2006, 2005, and 2004
- Notes to Consolidated Financial Statements

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, are not applicable, or information required is included in the financial statements or notes thereto and, therefore, have been omitted.

(3) **– LIST OF EXHIBITS**

Exhibit Number	Description of Exhibit	Reference*
3.1	Articles of Incorporation of the Company.	Exhibit 3.1 to Form S-14 Registration Statement 2-93769
3.2	Articles of Amendment to the Articles of Incorporation Filed on March 4, 1992 and April 30, 1992.	Exhibit 3.2 to Form 10-K for 1991
3.3	By-laws of the Company.	Exhibit 4 to Form S-8 Registration Statement 333-73327
3.4	Articles of Exchange of Concord Electric Company (CECo), Exeter & Hampton Electric Company (E&H) and the Company.	Exhibit 3.3 to 10-K for 1984
3.5	Articles of Exchange of CECo, E&H, and the Company—Stipulation of the Parties Relative to Recordation and Effective Date.	Exhibit 3.4 to Form 10-K for 1984
3.6	The Agreement and Plan of Merger dated March 1, 1989 among the Company, Fitchburg Gas and Electric Light Company (FG&E) and UMC Electric Co., Inc. (UMC).	Exhibit 25(b) to Form 8-K dated March 1, 1989
3.7	Amendment No. 1 to The Agreement and Plan of Merger dated March 1, 1989 among the Company, FG&E and UMC.	Exhibit 28(b) to Form 8-K dated December 14, 1989

Exhibit Number	Description of Exhibit	Reference*
4.1	Twelfth Supplemental Indenture of Unitil Energy Systems, Inc., successor to Concord Electric Company, dated as of December 2, 2002, amending and restating the Concord Electric Company Indenture of Mortgage and Deed of Trust dated as of July 15, 1958.	Exhibit 4.1 to Form 10-K for 2002
4.2	FG&E Purchase Agreement dated March 20, 1992 for the 8.55% Senior Notes due March 31, 2004.	Exhibit 4.18 to Form 10-K for 1993
4.3	FG&E Note Agreement dated November 30, 1993 for the 6.75% Notes due November 23, 2023.	Exhibit 4.18 to Form 10-K for 1993
4.4	FG&E Note Agreement dated January 26, 1999 for the 7.37% Notes due January 15, 2028.	Exhibit 4.25 to Form 10-K for 1999
4.5	FG&E Note Agreement dated June 1, 2001 for the 7.98% Notes due June 1, 2031.	Exhibit 4.6 to Form 10-Q for June 30, 2001
4.6	Unitil Realty Corp. Note Purchase Agreement dated July 1, 1997 for the 8.00% Senior Secured Notes due August 1, 2017.	Exhibit 4.22 to Form 10-K for 1997
4.7	FG&E Note Agreement dated October 15, 2003 for the 6.79% Notes due October 15, 2025.	Exhibit 4.7 to Form 10-K for 2003
4.8	FG&E Note Agreement dated December 21, 2005 for the 5.90% Notes due December 15, 2030.	**
4.9	Thirteenth Supplemental Indenture of Unitil Energy Systems, Inc., dated as of September 26, 2006.	**
10.1	Unitil System Agreement dated June 19, 1986 providing that Unitil Power will supply wholesale requirements electric service to CECo and E&H.	Exhibit 10.9 to Form 10-K for 1986
10.2	Supplement No. 1 to Unitil System Agreement providing that Unitil Power will supply wholesale requirements electric service to CECo and E&H.	Exhibit 10.8 to Form 10-K for 1987
10.3	Transmission Agreement between Unitil Power Corp. and Public Service Company of New Hampshire, effective November 11, 1992.	Exhibit 10.6 to Form 10-K for 1993
10.4	Form of Severance Agreement between the Company and the persons listed at the end of such Agreement.	Exhibit 10.1 to Form 10-Q for September 30, 2003
10.5	Form of Severance Agreement between the Company and the persons listed at the end of such Agreement.	Exhibit 10.2 to Form 10-Q for September 30, 2003
10.6	Key Employee Stock Option Plan effective January 17, 1989.	Exhibit 10.56 to Form 8 dated April 12, 1989
10.7	Unitil Corporation Key Employee Stock Option Plan Award Agreement.	Exhibit 10.63 to Form 10-K for 1989
10.8	Unitil Corporation Management Performance Compensation Plan.	Exhibit 10.94 to Form 10-K/A for 1993
10.9	Unitil Corporation Supplemental Executive Retirement Plan effective as of January 1, 1987.	Exhibit 10.95 to Form 10-K/A for 1993
10.10	Unitil Corporation 1998 Stock Option Plan.	Exhibit 10.12 to Form 10-K for 1998

Exhibit Number	Description of Exhibit	Reference*
10.11	Unitil Corporation Management Incentive Plan.	Exhibit 10.13 to Form 10-K for 1998
10.12	Entitlement Sale and Administrative Service Agreement with Select Energy.	Exhibit 10.14 to Form 10-K for 1999
10.13	Purchase and Sale Agreement For New Haven Harbor.	Exhibit 10.15 to Form 10-K for 1999
10.14	Labor Agreement effective June 1, 2000 between CECo and The International Brotherhood of Electrical Workers, Local Union No. 1837.	Exhibit 10.13 to Form 10-K for 2000
10.15	Labor Agreement effective June 1, 2000 between E&H and The International Brotherhood of Electrical Workers, Local Union No. 1837.	Exhibit 10.14 to Form 10-K for 2000
10.16	Labor Agreement effective June 1, 2000 between FG&E and The Utility Workers of America, AFL-CIO., Local Union No. B340, The Brotherhood of Utility Workers Council.	Exhibit 10.15 to Form 10-K for 2000
10.17	Unitil Corporation 2003 Restricted Stock Plan.	Exhibit 10.16 to Form 10-K for 2002
10.18	Portfolio Sale and Assignment and Transition Service and Default Service Supply Agreement By and Among Unitil Power Corp., Unitil Energy Systems, Inc. and Mirant Americas Energy Marketing, LP.	Exhibit 10.17 to Form 10-K for 2002
10.19	Unitil Corporation Tax Deferred Savings and Investment Plan—Trust Agreement.	Exhibit 10.1 to Form 10-Q for September 30, 2004
10.20	Employment Agreement effective as of November 1, 2006 by and between Unitil Corporation and Robert G. Schoenberger.	Exhibit 10.1 to Form 8-K dated September 29, 2006
11.1	Statement Re: Computation in Support of Earnings per Share For the Company.	Filed herewith
12.1	Statement Re: Computation in Support of Ratio of Earnings to Fixed Charges for the Company.	Filed herewith
21.1	Statement Re: Subsidiaries of Registrant.	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm.	Filed herewith
23.2	Consent of Independent Registered Public Accounting Firm.	Filed herewith
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith

Exhibit Number	Description of Exhibit	Reference*
31.3	Certification of Chief Accounting Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

* The exhibits referred to in this column by specific designations and dates have heretofore been filed with the Securities and Exchange Commission under such designations and are hereby incorporated by reference.

** In accordance with Item 601(b)(4)(iii)(A) of Federal Securities Regulation S-K, the instrument defining the debt of the Registrant and its subsidiary, described above, has been omitted but will be furnished to the Commission upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITIL CORPORATION

Date February 21, 2007

By /s/ ROBERT G. SCHOENBERGER

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

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ ROBERT G. SCHOENBERGER **Robert G. Schoenberger**	Principal Executive Officer; Director	February 21, 2007
/s/ MARK H. COLLIN **Mark H. Collin**	Principal Financial Officer	February 21, 2007
/s/ LAURENCE M. BROCK **Laurence M. Brock**	Principal Accounting Officer	February 21, 2007
/s/ MICHAEL J. DALTON **Michael J. Dalton**	Director	February 21, 2007
/s/ ALBERT H. ELFNER, III **Albert H. Elfner, III**	Director	February 21, 2007
/s/ ROSS B. GEORGE **Ross B. George**	Director	February 21, 2007
/s/ M. BRIAN O'SHAUGHNESSY **M. Brian O'Shaughnessy**	Director	February 21, 2007
/s/ CHARLES H. TENNEY, III **Charles H. Tenney, III**	Director	February 21, 2007
/s/ DR. SARAH P. VOLL **Dr. Sarah P. Voll**	Director	February 21, 2007
/s/ EBEN S. MOULTON **Eben S. Moulton**	Director	February 21, 2007
/s/ DAVID P. BROWNELL **David P. Brownell**	Director	February 21, 2007
/s/ EDWARD F. GODFREY **Edward F. Godfrey**	Director	February 21, 2007
/s/ MICHAEL B. GREEN **Michael B. Green**	Director	February 21, 2007
/s/ DR. ROBERT V. ANTONUCCI **Dr. Robert V. Antonucci**	Director	February 21, 2007

Exhibit 11.1

UNITIL CORPORATION

COMPUTATION IN SUPPORT OF EARNINGS PER SHARE

	Year Ended December 31,		
	2006	2005	2004
EARNINGS PER SHARE (000's, except per share data)			
Net Income	**$8,033**	$8,553	$8,226
Less: Dividend Requirements on Preferred Stock	**133**	156	215
Net Income Applicable to Common Stock	**$7,900**	$8,397	$8,011
Average Number of Common Shares Outstanding—Basic	**5,597**	5,551	5,509
Dilutive Effect of Stock Options and Restricted Stock	**15**	17	16
Average Number of Common Shares Outstanding—Diluted	**5,612**	5,568	5,525
Earnings Per Share—Basic	**$ 1.41**	$ 1.51	$ 1.45
Earnings Per Share—Diluted	**$ 1.41**	$ 1.51	$ 1.45

Exhibit 12.1

UNITIL CORPORATION

COMPUTATION IN SUPPORT OF RATIO OF EARNINGS TO FIXED CHARGES

(000's, except ratios)	Year Ended December 31, 2006	2005	2004	2003	2002
Earnings:					
Net Income, per Consolidated Statement of Earnings	**$ 8,033**	$ 8,553	$ 8,226	$ 7,958	$ 6,088
Federal and State Income Taxes included in Operations	**4,266**	4,275	4,206	3,551	2,490
Interest on Long-Term Debt	**9,404**	8,319	8,394	8,088	8,254
Amortization of Debt Discount Expense	**112**	104	98	82	81
Other Interest	**1,675**	1,046	629	1,070	1,038
Total	**$23,490**	$22,297	$21,553	$20,749	$17,951
Fixed Charges:					
Interest of Long-Term Debt	**$ 9,404**	$ 8,319	$ 8,394	$ 8,088	$ 8,254
Amortization of Debt Discount Expense	**112**	104	98	82	81
Other Interest	**1,675**	1,046	629	1,070	1,038
Pre-tax Preferred Stock Dividend Requirements	**208**	234	325	391	419
Total	**$11,399**	$ 9,703	$ 9,446	$ 9,631	$ 9,792
Ratio of Earnings to Fixed Charges	**2.06**	2.30	2.28	2.15	1.83

Exhibit 21.1

Subsidiaries of Registrant

The Company or the registrant has six wholly-owned subsidiaries, five of which are corporations organized under the laws of the State of New Hampshire: Unitil Energy Systems, Inc., Unitil Power Corp., Unitil Realty Corp., Unitil Resources, Inc. and Unitil Service Corp. The sixth, Fitchburg Gas and Electric Light Company, is organized under the laws of the State of Massachusetts. Usource, Inc., which is a corporation organized under the laws of the State of Delaware, is a wholly-owned subsidiary of Unitil Resources, Inc. Usource, Inc. is the sole member of Usource L.L.C., which is a corporation organized under the laws of the State of Delaware.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference of our report dated February 2, 2007, accompanying the December 31, 2006 and December 31, 2005 consolidated financial statements included in the Annual Report of Unitil Corporation and subsidiaries on Form 10-K for the year ended December 31, 2006 in the Registration Statements of Unitil Corporation and subsidiaries on Form S-8 (File No. 333-114978 effective April 29, 2004), Form S-3 (File No. 333-42264 effective July 26, 2000) and on Form S-8 (File No. 333-42266 effective July 26, 2000).

/s/ Vitale, Caturano & Company Ltd.

Boston, Massachusetts
February 20, 2007

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated February 17, 2005, accompanying the December 31, 2004 consolidated financial statements included in the Annual Report of Unitil Corporation and subsidiaries on Form 10-K for the year ended December 31, 2004. We hereby consent to the incorporation by reference of said report in the Registration Statements of Unitil Corporation and subsidiaries on Form S-8 (File No. 333-114978 effective April 29, 2004), Form S-3 (File No. 333-42264 effective July 26, 2000) and on Form S-8 (File No. 333-42266 effective July 26, 2000.)

/s/ GRANT THORNTON, LLP

Boston, Massachusetts
February 20, 2007

Exhibit 31.1

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert G. Schoenberger, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2007

/s/ Robert G. Schoenberger

Robert G. Schoenberger
Chief Executive Officer and President

Exhibit 31.2

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark H. Collin, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2007

/s/ Mark H. Collin

Mark H. Collin
Chief Financial Officer

Exhibit 31.3

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Laurence M. Brock, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2007

/s/ Laurence M. Brock

Laurence M. Brock
Chief Accounting Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Unitil Corporation (the "Company") on Form 10-K for the year ending December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned Robert G. Schoenberger, Chief Executive Officer and President, Mark H. Collin, Chief Financial Officer and Laurence M. Brock, Chief Accounting Officer, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Signature	Capacity	Date
/s/ Robert G. Schoenberger Robert G. Schoenberger	Chief Executive Officer and President	February 21, 2007
/s/ Mark H. Collin Mark H. Collin	Chief Financial Officer	February 21 , 2007
/s/ Laurence M. Brock Laurence M. Brock	Chief Accounting Officer	February 21, 2007

Shareholder Information

2007 Annual Meeting

The Annual Meeting of Shareholders is scheduled to be held at the office of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Thursday, April 19, 2007, at 10:30 a.m.

Investor Information

The Company's Transfer Agent, Computershare Trust Company, N.A. ("Computershare"), is responsible for all shareholder records, including the distribution of dividends, tax documents and proxy materials. Shareholder requests regarding these and other matters can be addressed by corresponding directly with Computershare at:

Mail: PO Box 43078
Providence, RI 02940-3078
Telephone: 800-736-3001
www.computershare.com/equiserve

For information about the Company and your investment, you may also call the Company directly, toll-free, at: 800-999-6501 and ask for the Shareholder Representative; or visit the Investor Relations page at www.unitil.com.

Shareholder Programs

Dividend Reinvestment Plan

A Dividend Reinvestment and Stock Purchase Plan is available to all holders of record of the Company's Common Stock. This Plan provides shareholders with an economical means to increase their investment in the Company each quarter by reinvesting their dividends without broker fees. For additional information or enrollment, please contact the Company or Computershare.

Dividend Direct Deposit

Dividend Direct Deposit Service is available without charge to shareholders of record of the Company's Common Stock. For further information or enrollment in this service, please contact the Company or Computershare.

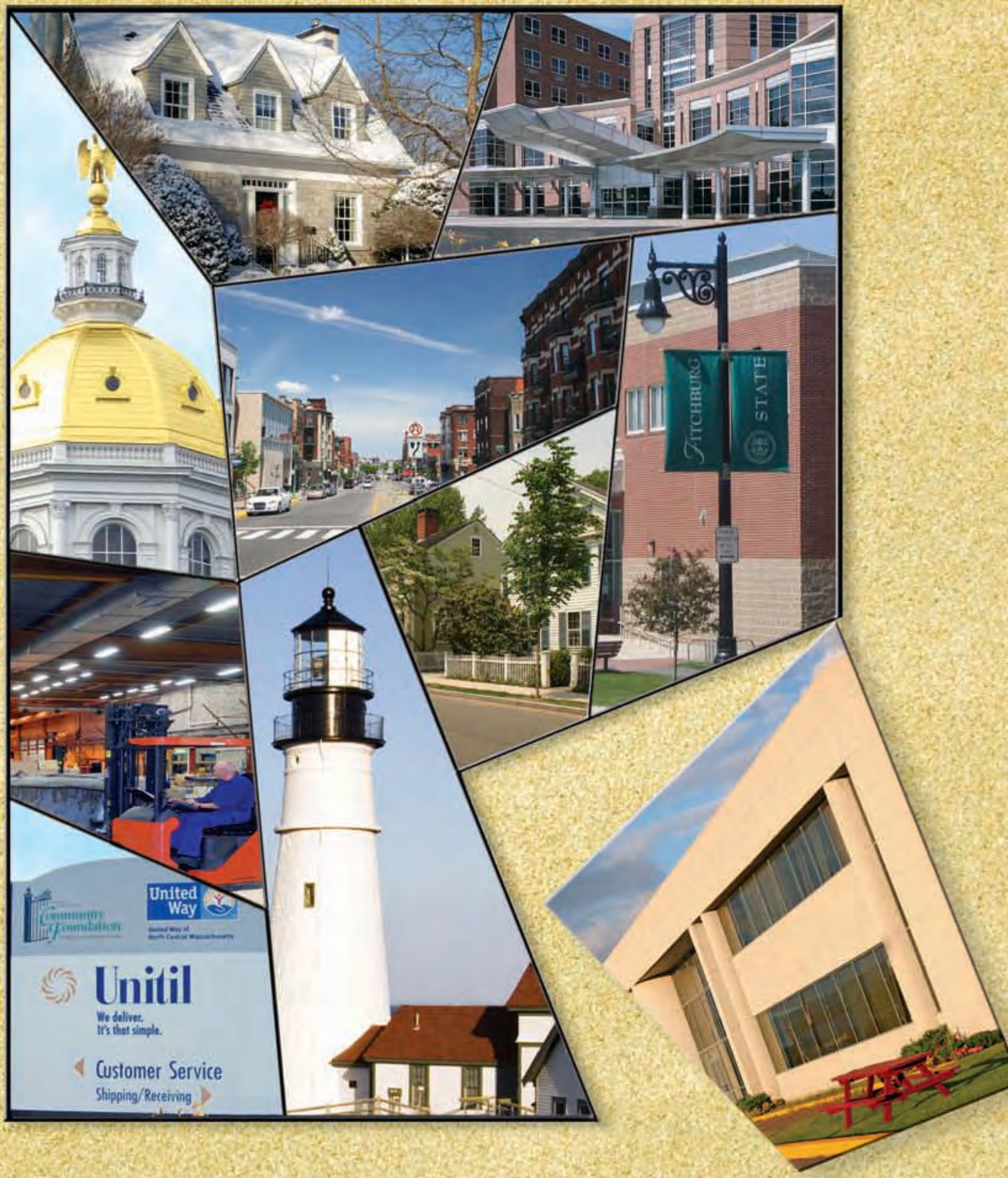
Direct Registration

Direct Registration is available without charge to shareholders of record of the Company's Common Stock. The Direct Registration System is a service within the securities industry that allows shares to be held and tracked electronically, without having to retain a physical stock certificate. For additional information, please contact Computershare at:

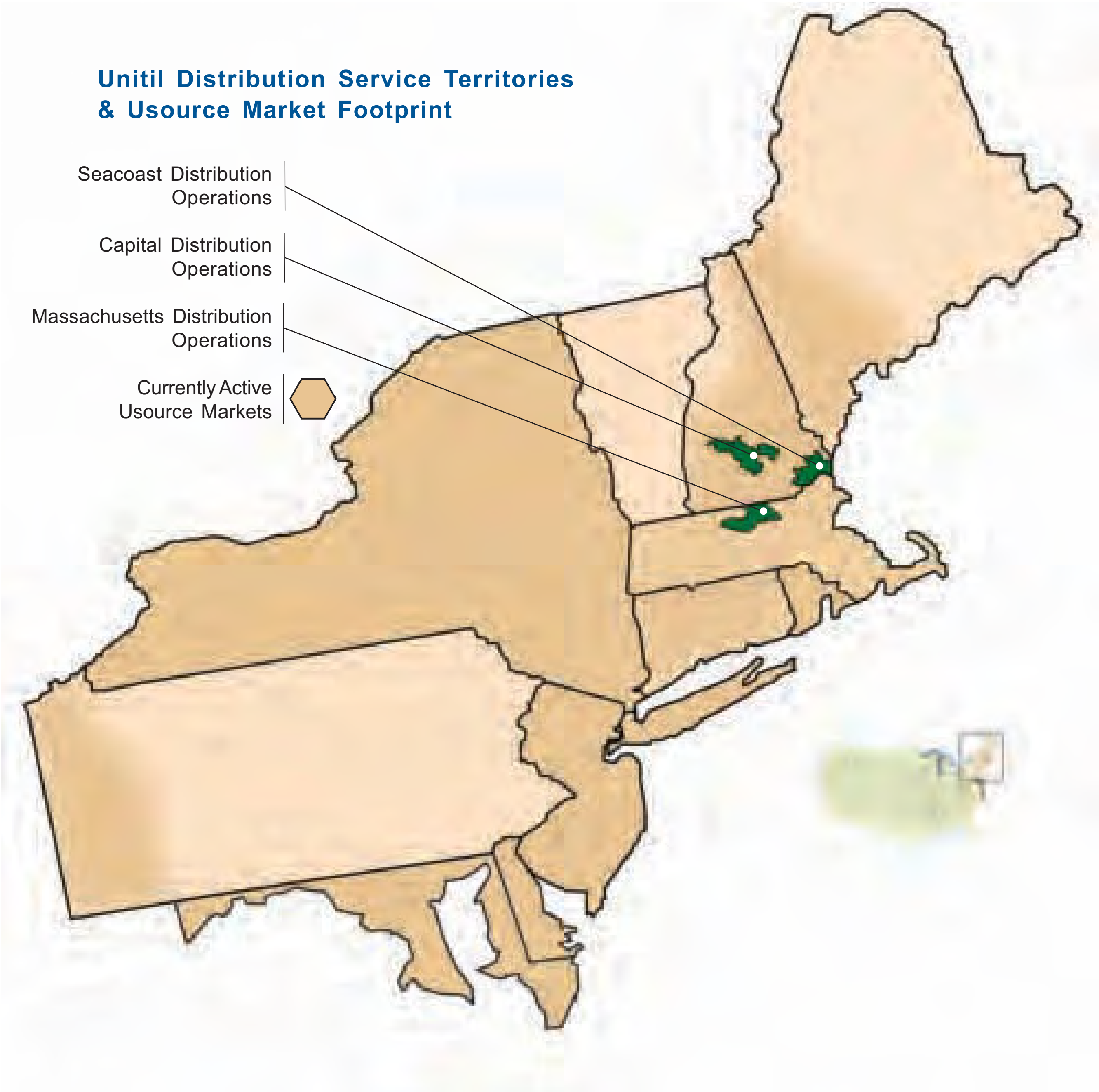
Mail: PO Box 43084
Providence, RI 02940-3084
Telephone: 800-935-9330
www.computershare.com/equiserve

Unitil Corporation • 6 Liberty Lane West • Hampton, NH 03842-1720
603-772-0775 • www.unitil.com

Unitil



Annual Report
2007



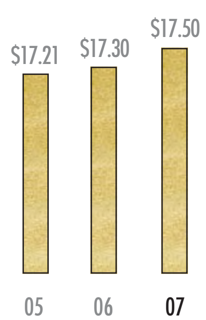
About the Company

Unitil (AMEX: UTL) is a public utility holding company with regulated utility subsidiaries providing electric distribution service in New Hampshire and electric and natural gas distribution service in Massachusetts. The Company also provides energy brokering and consulting services through its non-utility subsidiary, Usource. Additional information is available on line at www.unitil.com. Unitil's principal subsidiaries include Fitchburg Gas and Electric Light Company, Unitil Energy Systems, Inc., and Usource.

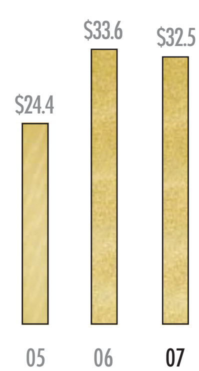
Financial Highlights

	2007	2006	2005
Financial Data (Millions)			
Total Operating Revenues	**$ 262.9**	$ 260.9	$ 232.1
Total Operating Income	**$ 18.5**	$ 15.8	$ 15.5
Earnings Applicable to Common	**$ 8.6**	$ 7.9	$ 8.4
Capital Expenditures	**$ 32.5**	$ 33.6	$ 24.4
Common Share Data			
Diluted Earnings per Share	**$ 1.52**	$ 1.41	$ 1.51
Dividends Paid per Common Share	**$ 1.38**	$ 1.38	$ 1.38
Book Value per Share (Year-end)	**$ 17.50**	$ 17.30	$ 17.21
Market Price (Year-end)	**$ 28.51**	$ 25.35	$ 25.16
Average Common Shares Outstanding (000's)	**5,672**	5,612	5,568
Operating Data			
Electric Distribution Sales (Millions of kWh)	**1,743.0**	1,751.5	1,790.4
Firm Gas Distribution Sales (Millions of therms)	**28.4**	26.4	24.3
Customers Served (Year-end)	**115,016**	114,387	113,593

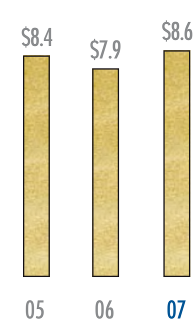
Book Value
Per Share
(Year-End)



Capital
Expenditures
(Dollars in Millions)



Earnings Applicable
to Common
(Dollars in Millions)



To Our Shareholders

As a smaller player in the electric and natural gas industry, your Company has concentrated on opportunities appropriate to our scale to grow shareholder value and to improve the service we provide to our local communities and to our customers. We believe that, in part due to our size and the local proximity of our utility operations, we are able to respond more quickly and effectively to changing regulatory and public policy initiatives, to leverage new technology solutions that significantly improve productivity and customer service, and to implement organizational changes that improve performance. These advantages are key to our success in making prudent investments and taking initiatives that create value for both our shareholders and our customers. We first laid out this strategy for you in our 2004 Annual Report. Given the sometimes turbulent times in our industry over this period, following this path certainly has not been a straight route.

In 2004, we described the key initiatives we would pursue. These focused on our core business, including: controlling our costs through increases in productivity; managing our regulatory and rate setting process; growing Usource, our unregulated energy brokering subsidiary; and expanding our distribution operations through customer growth and potential acquisitions. I am pleased to tell you that we are beginning to see the real benefits of implementing this game plan. Below we describe the financial and operational performance we have been able to achieve and highlight the progress we are making in our strategic initiatives.

Our recently announced acquisition of Northern Utilities, a 52,000 customer natural gas distribution utility located in New Hampshire and Maine, from NiSource Inc. of Merrillville, Indiana, underscores our progress. This acquisition increases our customer base by more than 40% and further diversifies our asset mix between natural gas and electric energy delivery systems. The combination is a natural fit for Unitil. We expect to close on the purchase by the fourth quarter of 2008.

Financial Performance

The implementation of our strategic plan has provided a firm financial foundation for your Company. In 2007, we reported earnings per share of $1.52 compared to $1.41 last year, an increase of 8%. In addition, the total return to our shareholders, including the value of our dividend payments, was over 18% for 2007. We achieved these results despite record high energy prices, a related decline in average customer energy usage, and a softening economy. Our future challenge is to retain and grow these earnings on your behalf in a rapidly changing environment, while also helping our customers manage their energy costs and improve their energy efficiency.

Usource had a record year, generating $3.7 million in revenues — a 54% increase over 2006. Usource earned seven cents per share compared to a loss last year of three cents a share. We expect Usource to continue to contribute positively to the Company's bottom line, as it expands its geographical reach and works with new channel partners, including demand response firms and regional business associations.

Electric usage by our New Hampshire and Massachusetts electric distribution customers was down 0.5% in 2007 compared to 2006, due to cooler summer weather, energy conservation, and a slowing economy. Our natural gas distribution customers increased usage in 2007 by 7.6%, due principally to seasonably cold weather and expanded gas usage by industrial customers.

In spite of the sales decline, our electric sales margin increased by $1.9 million compared with the prior year, as a result of higher average delivery rates in 2007 compared to 2006. Our natural gas sales margin increased by $2.0 million for this same period, reflecting higher sales, as well as the effect of new natural gas distribution rates approved and implemented in 2007. In August 2007, we filed for an increase in electric distribution rates in Massachusetts. We expect a decision on our proposal by the end of the first quarter of 2008.

Operations

Our operational performance in 2007 continued to reflect the benefits of the investments we have been making in our systems and our technology. Electric reliability, one of the most visible performance metrics, exceeded our benchmarks for the year. Our safety record and our response time for natural gas odor calls also exceeded targets. Natural gas leak frequency

has declined significantly, primarily as a result of our investments in cast iron and bare steel replacement. Our customer service and satisfaction survey results continue to far outpace national benchmarks.

We also maintained top performance in operating costs per customer. In 2007 we completed the replacement of the traditional people-intensive meter reading technology with an advanced metering infrastructure utilizing a power-line carrier communication technology. This project, the largest single capital investment in the Company's history, was completed on-time and on-budget. This system already has significantly increased our productivity, and the technology platform it creates promises future benefits for customers and shareholders.

Regulation

Early in 2008, with the final approval of an electric distribution rate increase for our Massachusetts subsidiary, we will have completed the resource-intensive process of obtaining regulatory approval to update our base distribution rates for new investment and changes in operating costs for all of our utility operations. Base rate increases test our internal resources and challenge our key external relationships. We believe we have done a good job managing this process and have achieved significant savings for our customers by managing our costs over this period.

During 2007, legislative and regulatory activity in support of energy efficiency and renewable resources reached a new level of intensity in Massachusetts, in New Hampshire, and at the federal level. Regulatory officials in both Massachusetts and New Hampshire initiated proceedings to consider alternative ratemaking structures which would decouple utility distribution revenues from sales. Such a policy would help to align utility ratemaking with federal and state energy policy priorities in support of energy efficiency and renewable resources, and could reduce the financial pressures that lead to more frequent base rate proceedings.

In 2007, New Hampshire adopted a Renewable Portfolio Standard (RPS) applicable to all retail suppliers of electricity, including distribution companies, thereby joining Massachusetts and a number of other states that have RPS programs in place. RPS requires companies to procure an increasing share of their electricity supply from renewable sources of various types, or make alternative compliance payments to the state at specified energy rates.

In 2008, we anticipate passage of a major energy bill in Massachusetts and the possibility of a major energy bill at the federal level. Massachusetts and New Hampshire are also both poised to join in a regional carbon cap-and-trade program pursuant to the Northeast Regional Greenhouse Gas Initiative. Both states began proceedings in 2007 to consider implementing the federal Energy Policy Act standards regarding smart metering and distributed generation interconnection, and this work is expected to continue in 2008. The New Hampshire Public Utilities Commission recently affirmed a commitment to Time of Use rates and will open proceedings to design and implement Time of Use rates for the state's utilities.

Your Company is an active participant in all of these legislative and regulatory initiatives. We believe that energy efficiency and the development of local energy resources — especially renewable fuels — are the most effective tools available in New England to directly influence the region's energy future. Increased deployment of energy efficiency and renewable energy sources offers long-term benefits in the form of improved energy costs and price volatility, economic development, lower pollution and global warming and, ultimately, enhanced energy security.


Rixon Photography

We have also consistently pointed out that traditional distribution utility ratemaking, which tends to reward utilities for increasing sales and penalize them for reductions in sales, is at odds with these policy priorities and needs to be re-aligned. Last year we began to explore the possibility of legislation in New Hampshire that would allow distribution utilities to invest in small-scale distributed energy resources, including energy efficiency, demand response, and renewable generation such as solar, wind, and combined heat and power. We believe that, over time, utility investments in these technologies may complement investments in distribution facilities to meet increasing peak demands. A bill has been introduced in 2008 with broad support that would authorize such investments and establish a process for distribution utilities to seek rate recovery for these types of investments, including an incentive rate of return.

Distribution Transformation

We have completed the installation of an Automated Metering Infrastructure (AMI). Some 117,000 electric and gas bills are now generated on the basis of electronic data acquired from the field and validated without physical meter reads. Estimated meter reads due to weather or other factors are no longer a problem, and the process of obtaining meter reads for property transfers is vastly simplified. We are beginning to explore the technical opportunities now available as a consequence of taking the leap to AMI — opportunities which offer additional value in terms of customer service and business process efficiencies.

Unitil also continues to make progress with the broader integration of electronic information systems, including AMI and geographical information systems (GIS). Integrating GIS tools throughout the engineering design process, facility construction, and distribution operations is vastly improving efficiency and accuracy in these key business functions. While these functions may be largely invisible to the customer, their impact on reliability, cost, and productivity is significant. Moreover, the capabilities provided by this integration process enable the Company and its employees to explore and implement additional enhancements and system-wide innovations faster and more effectively.

We see these developments as part of a fundamental transformation of the distribution utility business from a static, one-way power delivery function to a dynamic multi-functional system that integrates and processes customer energy needs, energy market inputs, energy flows, and information on a simultaneous basis. This is the future "smart grid" which will reflect the confluence of technological innovation, the penetration of distributed energy resources, and the evolution of communication modes and consumer choices. This transformation will be evolutionary. We intend to be part of this transformation.

Distribution Growth

High energy prices, the housing crisis, and economic uncertainty create challenges for Unitil's efforts to foster gas and electric customer growth in its service areas. However, we continue to see progress with in-territory growth of gas distribution sales, given favorable trends in comparative prices

of natural gas and competing fuels and the environmental advantages and convenience of natural gas. Relative to other parts of the country, New England as a whole — and parts of Unitil's service territory specifically — have a low penetration of gas for business applications and home heating, providing continued opportunity for growth.

With the recent announcement of our acquisition of Northern Utilities, and the associated pipeline company Granite State Gas Transmission, Inc., Unitil has also achieved a key milestone in fulfilling its growth objectives through acquisition of new service areas. Northern Utilities, with 52,000 customers located in 44 communities in eastern New Hampshire and southern Maine, is a unique fit with Unitil's existing distribution businesses. Portions of Northern Utilities' service territory overlap, or are contiguous with, Unitil's existing electric distribution service territory in New Hampshire. The acquisition significantly strengthens our gas operations, while adding customers in our existing and nearby service areas. It affirms our business commitment in New Hampshire, while extending our reach into Maine, and it brings to those customers Unitil's strong track record of efficiency and quality customer service.

Usource

Usource achieved another record year. The Company's energy brokering activities generated $3.7 million in revenues, a 54% increase over 2006. Usource contributed seven cents per share to Unitil's earnings in 2007, compared to a net loss last year of three cents per share. This success was built on Usource's efforts to retain and expand its impressive client list among large energy users throughout the Northeast, but also reflects its success with its channel partners. Significantly, Usource was able to expand the scope of a key channel relationship and create a successful aggregation program for small and medium-sized energy users.

Usource also began building relationships with a number of companies providing demand response services, allowing it to expand the range of services available to Usource clients while also offering energy brokerage services to an expanded pool of

large energy users. We expect Usource to continue to contribute to the Company's bottom line, as it expands its geographical reach and works with new channel partners.

Conclusion

Your Company had a full and exciting year in 2007. We do not underestimate the short-term economic challenges facing our industry and country, or the significance of the transformations we expect in our industry over the long term. Nor do we take lightly the challenge of fulfilling our agenda for 2008 and beyond. We have the vision, the plans, and the resources needed to meet these challenges and achieve our long-term goal of increasing earnings per share by 3% to 5% per year.

We hope you agree that we are making the most of our opportunities.

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

February 19, 2008

This Annual Report contains forward-looking statements, which are subject to the inherent uncertainties in predicting future results and conditions. All statements, other than statements of historical fact, are forward-looking statements. Certain factors that could cause the actual results to differ materially from those projected in these forward-looking statements include, but are not limited to the following: variations in weather; changes in the regulatory environment; customers' preferences on energy sources; general economic conditions; increased competition; fluctuations in supply, demand, transmission capacity, and prices for energy commodities; and other uncertainties, all of which are difficult to predict, and many of which are beyond the control of Unitil Corporation.

Shareholder Information

2008 Annual Meeting

The Annual Meeting of Shareholders is scheduled to be held at the office of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Thursday, April 17, 2008, at 10:30 a.m.

Investor Information

The Company's Transfer Agent, Computershare Trust Company, N.A. ("Computershare"), is responsible for all shareholder records, including stock transfer, the distribution of dividends, tax documents and proxy materials. Shareholder requests regarding these and other matters can be addressed by corresponding directly with Computershare at:

Mail: PO Box 43078
Providence, RI 02940-3078
Telephone: 800-736-3001
www.computershare.com

For information about the Company and your investment, you may also call the Company directly, toll-free, at: 800-999-6501 and ask for the Shareholder Representative; or visit the Investor Relations page at www.unitil.com.

Shareholder Programs

Dividend Reinvestment Plan

A Dividend Reinvestment and Stock Purchase Plan is available to all holders of record of the Company's Common Stock. This Plan provides shareholders with an economical means to increase their investment in the Company each quarter by reinvesting their dividends without broker fees. For additional information or enrollment, please contact the Company or Computershare.

Dividend Direct Deposit

Dividend Direct Deposit Service is available without charge to shareholders of record of the Company's Common Stock. For further information or enrollment in this service, please contact the Company or Computershare.

Direct Registration

The Company's Common Stock is eligible for Direct Registration, which is available without charge to shareholders of record. The Direct Registration System is a service within the securities industry that allows shares to be held and tracked electronically, without having to retain a physical stock certificate. For additional information, please contact Computershare at:

Mail: PO Box 43084
Providence, RI 02940-3084
Telephone: 800-935-9330
www.computershare.com

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-8858

UNITIL CORPORATION
(Exact name of registrant as specified in its charter)

New Hampshire	**02-0381573**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6 Liberty Lane West, Hampton, New Hampshire	**03842-1720**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (603) 772-0775

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, No Par Value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes__ No_X__

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes__ No_X__

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes_X_ No___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large Accelerated filer___ Accelerated filer__X__ Non-accelerated filer___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes__ No_X__

Based on the closing price of June 30, 2007, the aggregate market value of common stock held by non-affiliates of the registrant was $151,539,461.

The number of common shares outstanding of the registrant was 5,756,795 as of February 12, 2008.

Documents Incorporated by Reference:

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 17, 2008, are incorporated by reference into Part III of this Report

UNITIL CORPORATION
FORM 10-K
For the Fiscal Year Ended December 31, 2007
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Exhibit 11.1	Computation in Support of Earnings per Share
Exhibit 12.1	Computation in Support of Ratio of Earnings to Fixed Charges
Exhibit 21.1	Subsidiaries of Registrant
Exhibit 23.1	Consent of Independent Registered Public Accounting Firm
Exhibits 31.1 – 31.3	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

PART I

Item 1. Business

UNITIL CORPORATION

Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil was incorporated under the laws of the State of New Hampshire in 1984. The following companies are wholly-owned subsidiaries of Unitil:

Unitil Corporation Subsidiaries	State and Year of Organization	Principal Type of Business
Unitil Energy Systems, Inc. (UES)	NH - 1901	Retail Electric Distribution Utility
Fitchburg Gas and Electric Light Company (FG&E)	MA - 1852	Retail Electric & Gas Distribution Utility
Unitil Power Corp. (Unitil Power)	NH - 1984	Wholesale Electric Power Utility
Unitil Service Corp. (Unitil Service)	NH - 1984	Utility Service Company
Unitil Realty Corp. (Unitil Realty)	NH - 1986	Real Estate Management
Unitil Resources, Inc. (Unitil Resources)	NH - 1993	Non-regulated Energy Services
Usource Inc. and Usource L.L.C. (Usource)	DE - 2000	Energy Brokering and Advisory Services

Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005.

Unitil's principal business is the retail distribution of electricity in the southeastern seacoast and capital city areas of New Hampshire and the retail distribution of both electricity and natural gas in the greater Fitchburg area of north central Massachusetts. Unitil has two distribution utility subsidiaries, UES, which operates in New Hampshire and FG&E, which operates in Massachusetts (collectively referred to as the "retail distribution utilities"). Unitil's retail distribution utilities serve approximately 100,000 electric customers and 15,100 natural gas customers in their franchise areas. The retail distribution companies are local "pipes and wires" utility distribution companies with a combined investment in net utility plant of $248.9 million at December 31, 2007. Unitil's total revenue was $262.9 million in 2007. Earnings applicable to common shareholders for 2007 was $8.6 million. Substantially all of Unitil's revenue and earnings are derived from regulated utility operations.

A third utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for UES. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of UES on May 1, 2003 and divested of substantially all of its long-term power supply contracts through the sale of the entitlements to the electricity associated with those contracts.

Unitil also has three other wholly-owned subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company's corporate office in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Resources is the Company's wholly-owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly-owned subsidiaries of Unitil Resources. Usource provides energy brokering and advisory services to large commercial and industrial customers in the northeastern United States.

OPERATIONS

Electric Utility Operations

Unitil's electric utility operations are conducted through the retail distribution utilities, UES and FG&E. Revenue from Unitil's electric utility operations was $225.0 million for 2007. Earnings from electric utility operations were $7.3 million for the same 12-month period.

The primary business of Unitil's electric utility operations is the local distribution of electricity to customers in its franchise areas. As a result of the implementation of retail choice in New Hampshire and Massachusetts, Unitil's customers are free to contract for their supply of electricity with third-party suppliers. The retail distribution utilities continue to deliver that supply of electricity over their distribution systems. Both UES and FG&E supply electricity to those customers who do not obtain their supply from third-party suppliers, with the costs associated with electricity supplied by the Company being recovered on a pass-through basis under periodically-adjusted rates.

UES distributes electricity to approximately 72,200 customers in New Hampshire in the capital city of Concord as well as 12 surrounding towns and all or part of 16 towns in the southeastern and seacoast regions of New Hampshire, including the towns of Hampton, Exeter, Atkinson and Plaistow. UES' franchise areas consist of approximately 408 square miles. The state capital of New Hampshire is located within UES' franchise areas, and includes the executive, legislative and judicial branches and offices and facilities for all major state government services as well as several federal government facilities. In addition, UES' franchise areas are retail trading and recreation centers for the central and southeastern parts of the state. These areas serve diversified commercial and industrial businesses, including manufacturing firms engaged in the production of electronic components, wires and plastics. UES' franchise areas include popular resort areas and beaches along the Atlantic Ocean, including the Hampton Beach recreational area. UES' 2007 retail electric operating revenue was $157.8 million, of which approximately 51.0% was derived from residential sales and 49.0% from commercial/industrial sales.

FG&E is engaged in the retail distribution of both electricity and natural gas in the city of Fitchburg and several surrounding communities. FG&E's franchise area encompasses approximately 170 square miles. Electricity is supplied and distributed by FG&E to approximately 27,800 customers in the communities of Fitchburg, Ashby, Townsend and Lunenburg. FG&E's industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries. FG&E's 2007 retail electric operating revenue was $67.2 million, of which approximately 52.0% was derived from residential sales and 48.0% from commercial/industrial sales.

Gas Utility Operations

Natural gas is supplied and distributed by FG&E to approximately 15,100 retail customers in the communities of Fitchburg, Lunenburg, Townsend, Ashby, Gardner and Westminster, all located in Massachusetts.

As a result of the introduction of retail choice for all natural gas customers in Massachusetts, FG&E's customers are free to contract for their supply of natural gas with third-party suppliers. FG&E continues to provide natural gas supply services to those customers who do not obtain their supply from third-party suppliers. The costs associated with natural gas supplied by FG&E are recovered on a pass-through basis under periodically adjusted rates.

FG&E's 2007 gas operating revenue was $34.2 million, of which approximately 55.0% was derived from residential firm sales and 45.0% from commercial/industrial firm sales. Earnings from FG&E's gas utility operations were $1.0 million for 2007.

Seasonality

Natural gas sales in New England are seasonal, and the Company's results of operations reflect this seasonal nature. Accordingly, results of operations are typically positively impacted by gas operations during the five heating season months, from November through March. Electric sales in New England are far less seasonal than natural gas sales; however, the highest usage typically occurs in both the summer due to air conditioning demand and the winter months due to heating-related requirements and shorter daylight hours.

Non-regulated and Other Non-Utility Operations

Unitil's non-regulated operations are conducted through Unitil Resources and its subsidiary Usource. Usource provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Revenue from Unitil's non-regulated operations was $3.7 million in 2007. Earnings from Unitil's non-regulated operations were $0.3 million in 2007. Unitil's other non-utility subsidiaries include Unitil Service and Unitil Realty, which provide centralized facilities, management and administrative services to Unitil's affiliated companies. Unitil's consolidated net income includes the earnings of the holding company and these subsidiaries. The earnings of these other non-utility operations are principally derived from income earned on short-term investments and real property owned for Unitil's and its subsidiaries' use and is reported in Other segment income (for segment information, see Part II, Item 8, Note 9 herein). Net earnings from Unitil's other non-utility operations were zero in 2007 as earnings on the short-term investments and real property discussed above were offset by interest expense.

(For details on Unitil's Results of Operations, see Part II, Item 7 herein.)

RATES AND REGULATION

Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 in regards to certain bookkeeping, accounting and reporting requirements. Unitil's utility operations related to wholesale and interstate energy business activities are also regulated by FERC. The retail distribution utilities, UES and FG&E, are subject to regulation by the New Hampshire Public Utilities Commission (NHPUC) and the Massachusetts Department of Public Utilities (MDPU), respectively, in regards to their rates, issuance of securities and other accounting and operational matters. Because Unitil's primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company's operations and financial position.

Unitil's retail distribution utilities have the franchise to deliver electricity and/or natural gas to all customers in their franchise areas, at rates established under traditional cost of service regulation. Under this regulatory structure, UES and FG&E recover the cost of providing distribution service to their customers based on a historical test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in Massachusetts and New Hampshire, Unitil's customers have the opportunity to purchase their electric or natural gas supplies from third party vendors. Most customers, however, continue to purchase such supplies through UES and FG&E as the provider of last resort. UES and FG&E purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual costs of these supplies on a pass-through basis, as well as certain costs associated with industry restructuring, through reconciling rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, Unitil Power and FG&E divested substantially all of their long-term power supply contracts and interests in generation assets through the sale of the interest in those assets or the sale of the entitlements to the electricity provided by those generation assets and long-term power supply contracts. UES and FG&E recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next three to five years, is $104.8 million as of December 31, 2007 and is included in Regulatory Assets on the Company's Consolidated Balance Sheet (see Regulatory Assets table in Note 1.) Unitil's retail distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

ELECTRIC POWER SUPPLY

The transition to retail choice required the divestiture of Unitil's existing power supply arrangements and the procurement of replacement supplies, which provided the flexibility for migration of customers to and from utility service. FG&E, UES, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the Independent System Operator – New England (ISO-NE) markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve Unitil's retail customers.

As a result of restructuring of the electric utility industry in Massachusetts and New Hampshire, Unitil's customers in both New Hampshire and Massachusetts have the opportunity to purchase their electric supply from competitive retail suppliers. Retail choice has been successful for Unitil's largest customers. As of December 2007, 94, or 60%, of Unitil's largest New Hampshire customers representing 23% of total New Hampshire electric sales and 27, or 84%, of Unitil's largest Massachusetts customers representing 35% of total Massachusetts electric sales are purchasing their electric power supply in the competitive market. This represents an increase of 25 in the number of large customers, primarily in New Hampshire, participating in the competitive market as of December 2007 compared to December 2006. However, most residential and small commercial customers continue to purchase their electric supply through the retail distribution utilities. The concentration of the competitive retail market on higher use customers has been a common experience throughout the New England electricity market.

Regulated Energy Supply

In order to provide regulated electric supply as the provider of last resort to their respective retail customers, the retail distribution companies enter into load-following wholesale electric power supply contracts with various wholesale suppliers.

FG&E has power supply contracts with various wholesale suppliers for the provision of Default Service energy supply. MDPU policy dictates the pricing structure and duration of each of these contracts. Currently, all Default Service power supply contracts for large general accounts are three months in duration and provide 100% of supply requirements. Default Service power supply contracts for residential and small and medium general service customers are acquired every 6 months, are 12 months in duration and provide 50% of the supply requirements. The MDPU regularly investigates alternatives to its statewide procurement policy, which could lead to future changes in the procurement structure described above.

UES currently has power supply contracts with various wholesale suppliers for the provision of Default Service to its customers. UES procures Default Service supply for its large general service accounts through competitive solicitations for power contracts of three-months in duration for 100% of supply requirements. UES procures Default Service supply for its other customers through a series of two one-year contracts and two three-year contracts, each providing 25% of the total supply requirements of the group.

Regional Transmission and Power Markets

FG&E, UES and Unitil Power, as well as virtually all New England electric utilities, are participants in ISO New England Inc., the Regional Transmission Organization (RTO) in New England. The regional bulk power system is operated by an independent corporate entity, ISO-NE. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economic manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. The Tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric marketplace. The formation of an RTO and other wholesale market changes are not expected to have a material impact on Unitil's operations because of the cost recovery mechanisms for wholesale energy and transmission costs approved by the MDPU and NHPUC.

GAS SUPPLY

FG&E's natural gas customers have the opportunity to purchase their natural gas supply from third-party vendors, although most customers continue to purchase such supplies at regulated rates through FG&E as the provider of last resort. The costs associated with the acquisition of such wholesale natural gas supplies for customers who do not contract with third-party suppliers are recovered on a pass-through basis through periodically-adjusted rates and are included in Purchased Gas in the Consolidated Statements of Earnings.

FG&E purchases natural gas from domestic and Canadian suppliers under contracts of one year or less, as well as from producers and marketers on the spot market. FG&E arranges for gas delivery to its city gate station or underground storage through its own long-term contracts with the Tennessee interstate pipeline. The suppliers do have the option to deliver to the city gate station or in the case of liquefied natural gas (LNG) or liquefied propane gas (LPG) trucked to each storage facility within FG&E's service territory.

Sources of Gas Supply
(Expressed as percent of total MMBtu of gas purchased)

	2007	2006	2005
Natural Gas:			
Domestic firm	**94.6%**	84.2%	84.8%
Canadian firm	**2.2%**	2.0%	3.4%
Domestic spot market	**2.3%**	11.0%	9.3%
Total natural gas	**99.1%**	97.2%	97.5%
Supplemental gas	**0.9%**	2.8%	2.5%
Total gas purchases	**100.0%**	100.0%	100.0%

Cost of Gas Sold

	2007	2006	2005
Cost of gas purchased and sold per MMBtu	**$ 10.41**	$ 11.18	$ 10.83
Percent Increase (Decrease) from prior year	**(6.9%)**	3.2%	28.7%

FG&E has available under firm contract 14,057 MMbtu per day of year-round and seasonal transportation and underground storage capacity to its distribution facilities. As a supplement to pipeline natural gas, FG&E owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

ENVIRONMENTAL MATTERS

The Company's past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. The Company believes it is in compliance with all applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2007, there are no material losses reasonably possible in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

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

FG&E recovers the environmental response costs incurred at this former MGP site not recovered by insurance or other means in gas rates pursuant to terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, FG&E is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs. In addition FG&E has filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. Any recovery that FG&E receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between FG&E and its gas customers.

FG&E is in the process of developing long range plans for a feasible permanent remediation solution for the Sawyer Passway site, including alternatives for re-use of the site. Included on the Company's Consolidated Balance Sheet at December 31, 2007 and 2006 in Environmental Obligations is $12.0 million related to estimated future clean up costs for permanent remediation of the site. A corresponding regulatory asset was recorded to reflect the future rate recovery for these costs. The amounts recorded do not assume any amounts are recoverable from insurance companies or other third parties.

The Company's ultimate liability for future environmental remediation costs may vary from estimates, which may be adjusted as new information or future developments become available. Based on the Company's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, the Company does not believe that these environmental costs will have a material adverse effect on the Company's consolidated financial position or results of operations.

EMPLOYEES

As of December 31, 2007, the Company and its subsidiaries had 291 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

There are approximately 85 employees represented by labor unions. These employees are covered by collective bargaining agreements, which expire May 31, 2010. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. The Company expects to successfully negotiate new agreements prior to their expiration dates.

AVAILABLE INFORMATION

The Company's Internet address is *www.unitil.com*. There, the Company makes available, free of charge, its SEC fillings, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports, as well as amendments to those reports. These reports are made available through the Investors section of Unitil's website via a direct link to the section of the SEC's website which contains Unitil's SEC filings.

The Company's current Code of Ethics was approved by Unitil's Board of Directors on January 15, 2004. This Code of Ethics, along with any amendments or waivers, is also available on Unitil's website.

Unitil's common stock is listed on the American Stock Exchange under the ticker symbol "UTL."

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table provides information about our directors and senior management as of February 12, 2008:

Name	Age	Position
Robert G. Schoenberger	57	Chairman of the Board, Chief Executive Officer and President
Mark H. Collin	48	Senior Vice President, Chief Financial Officer and Treasurer
Thomas P. Meissner, Jr.	45	Senior Vice President and Chief Operating Officer
Laurence M. Brock	54	Controller and Chief Accounting Officer
Todd R. Black	43	President, Usource
George R. Gantz	56	Senior Vice President, Customer Services and Communications, Unitil Service Corp.
George E. Long, Jr.	51	Vice President, Administration, Unitil Service Corp.

Raymond J. Morrissey	60	Vice President, Information Systems
Sandra L. Whitney	44	Corporate Secretary
Dr. Robert V. Antonucci	62	Director
David P. Brownell	64	Director
Michael J. Dalton	67	Director
Albert H. Elfner, III	63	Director
Edward F. Godfrey	58	Director
Michael B. Green	58	Director
Eben S. Moulton	61	Director
M. Brian O'Shaughnessy	64	Director
Charles H. Tenney, III	60	Director
Dr. Sarah P. Voll	65	Director

Robert G. Schoenberger has been Unitil's chairman of the board and chief executive officer since 1997, and Unitil's president since 2003. Prior to his employment with Unitil, he was president and chief operating officer of the New York Power Authority (state-owned utility operating 6000 Mw of generation and 1400 miles of high voltage transmission) from 1993 until 1997. He also serves as chairman and trustee of Exeter Health Resources, and as a director of SatCon Technology Corporation.

Mark H. Collin has been Unitil's senior vice president and chief financial officer since February 2003. Mr. Collin has served as Unitil's treasurer since 1998. Since 1992, he has been treasurer of UES and FG&E. Mr. Collin joined Unitil in 1988. Mr. Collin serves on the board of governors of New Hampshire Public Television.

Thomas P. Meissner, Jr. has been Unitil's senior vice president and chief operating officer since June 2005. Mr. Meissner served as Unitil's senior vice president, operations, from February 2003 through June 2005. Mr. Meissner joined Unitil in 1994 and served as Unitil's director of engineering from 1998 to 2003. From 1985 to 1994, he was employed by the Public Service Company of New Hampshire.

Laurence M. Brock has been Unitil's chief accounting officer and controller since June 2005. Mr. Brock joined Unitil in 1995 as vice president and controller, and is a Certified Public Accountant in the State of New Hampshire. Prior to his employment with Unitil, Mr. Brock served as corporate controller with a group of diversified financial services and manufacturing companies. Mr. Brock gained his public accounting experience with Coopers & Lybrand in Boston, Massachusetts.

Todd R. Black has been president of Usource since June 2003. He served as vice president, sales and marketing for Usource from 1998 to 2003. Prior to his employment with Unitil, he served as vice president, services delivery for Energy USA, the non-regulated subsidiary of Bay State Gas Company, from 1988 until 1998.

George R. Gantz has been Unitil's senior vice president, customer services and communications since January 2003. Mr. Gantz previously served as Unitil's senior vice president, communication and regulation from 1994 to 2003. Mr. Gantz joined Unitil in 1983.

George E. Long, Jr. has been Unitil's vice president, administration since February 2003. Mr. Long joined Unitil in 1994 and was director, human resources from 1998 to 2003. Prior to his employment with Unitil, Mr. Long was the director of compensation and benefits at Monarch Life Insurance Company from 1985 to 1994.

Raymond J. Morrissey has been Unitil's vice president, information systems since February 2003. From 1992 to 2003, he served as Unitil's vice president of customer service, and from 1991 to 1992, he was the general manager of Unitil's subsidiary, FG&E. Mr. Morrissey joined Unitil in 1985.

Sandra L. Whitney has been Unitil's corporate secretary and secretary of the board since February 2003. Ms. Whitney has been the corporate secretary of Unitil's subsidiary companies, FG&E, UES, Unitil Power, Unitil Realty and Unitil Service since 1994. Ms. Whitney joined Unitil in 1990.

Dr. Robert V. Antonucci has been president of Fitchburg State College since 2003. Dr. Antonucci was also president of the School Group of Riverdeep, Inc. from 2001 to 2003, and president and CEO of Harcourt Learning Direct and Harcourt Online College from 1998 to 2001. Dr. Antonucci also served as the Commissioner of Education for the Commonwealth of Massachusetts from 1992 to 1998. Dr. Antonucci also serves as a trustee of Eastern Bank.

David P. Brownell was a senior vice president of Tyco International Ltd. from 1995 until his retirement in 2003. He had been with Tyco since 1984. Mr. Brownell was also interim president of the University of New Hampshire Foundation.

Michael J. Dalton was Unitil's president and chief operating officer from 1984 until his retirement in 2003. Mr. Dalton is a member of the Industrial Advisory Board of the University of New Hampshire College of Engineering and Physical Sciences.

Albert H. Elfner, III was the chairman, from 1994, and chief executive officer, from 1995, of Evergreen Investment Management Company until his retirement in 1999. Mr. Elfner is also a director of NGM Insurance Company (NGM), as well as a member of the NGM Finance Committee.

Edward F. Godfrey was the executive vice president and chief operating officer of Keystone Investments, Incorporated from 1997 until his retirement in 1998. While at Keystone Investments, he was also a senior vice president, chief financial officer and treasurer from 1988 to 1996. Mr. Godfrey is also a director of VehiCare, LLC since 2006.

Michael B. Green has been the president and chief executive officer of Capital Region Health Care and Concord Hospital since 1992. Mr. Green is also a member of the adjunct faculty, Dartmouth Medical School, Dartmouth College. He also currently serves on the Board of the Foundation for Healthy Communities, is a director of the New Hampshire Hospital Association, a director of New Hampshire Business Committee for the Arts, a director of Merrimack County Savings Bank, including membership on the bank's investment and audit committees.

Eben S. Moulton has been the managing partner of Seacoast Capital Corporation since 1995. Mr. Moulton is also a director of IEC Electronics, a director of six private companies and a trustee of Colorado College.

M. Brian O'Shaughnessy has been the chairman of the board of Revere Copper Products, Inc. since 1988. Mr. O'Shaughnessy also served as chief executive officer and president of Revere from 1988 - 2007. Mr. O'Shaughnessy also serves on the board of directors of the Coalition for a Prosperous America, three copper industry trade associations, three manufacturing associations in New York State regarding energy-related issues, and the Economic Development Growth Enterprise of Mohawk Valley.

Charles H. Tenney, III has been director of Operations for Brainshift.com, Inc. since 2002. Mr. Tenney is also a director and treasurer of "The BrainShift Foundation". Mr. Tenney also served on the board of overseers of the Huntington Theater Company, Boston, Massachusetts from 2004 - 2006.

Dr. Sarah P. Voll was vice president, National Economic Research Associates, Inc. (NERA) from 1999 until her retirement in 2007. Dr. Voll was also a senior consultant at NERA from 1996 to 1999. Prior to her employment with NERA, Dr. Voll was a staff member at the New Hampshire Public Utilities Commission from 1980 – 1996.

INVESTOR INFORMATION

Annual Meeting
The annual meeting of shareholders is scheduled to be held at the offices of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Thursday, April 17, 2008, at 10:30 a.m.

Transfer Agent
The Company's transfer agent, Computershare, is responsible for shareholder records, issuance of stock certificates, and the distribution of Unitil's dividends and IRS Form 1099-DIV. Shareholders may contact Computershare at:

Computershare
P.O. Box 43078
Providence, RI 02940-3078
Telephone: 800-736-3001
www.computershare.com

Investor Relations
For information about the Company and your investment, you may call the Company directly, toll-free, at: 800-999-6501 and ask for the Investor Relations Representative; visit the Investor page at www.unitil.com; or contact the transfer agent, Computershare, at the number listed above.

Special Services & Shareholder Programs Available

- Internet Account Access is available at www.computershare.com.
- Dividend Reinvestment Plan:
  To enroll, please contact the Company's Investor Relations Representative or Computershare.
- Dividend Direct Deposit Service:
  To enroll, please contact the Company's Investor Relations Representative or Computershare.
- Direct Registration:
  For information, please contact Computershare at 800-935-9330 or the Company's Investor Relations Representative at 800-999-6501.

Item 1A. Risk Factors

Risks Relating to Our Business

Risks related to the regulation of our business could impact the rates we are able to charge, our costs and our profitability.

We are subject to comprehensive regulation by federal and state regulatory authorities, which significantly influences our operating environment and our ability to recover costs from our customers. In particular, we are regulated by the FERC and state regulatory authorities with jurisdiction over public utilities, including the NHPUC and the MDPU. These authorities regulate many aspects of our operations, including, but not limited to, construction and maintenance of facilities, operations, safety, issuance of securities, accounting matters, transactions between affiliates, the rates that we can charge customers and the rate of return that we are allowed to realize. Our ability to obtain rate adjustments to maintain our current rate of return depends upon regulatory action under applicable statutes, rules and regulations, and we cannot assure you that we will be able to obtain rate adjustments or continue receiving our current authorized rates of return. These regulatory authorities are also empowered to impose financial penalties and other sanctions on us if we are found to have violated statutes and regulations governing our utility operations.

We are unable to predict the impact on our operating results from the regulatory activities of any of these agencies. Although we have attempted to actively manage the rate making process and have had recent success in obtaining rate adjustments, we can offer no assurances as to future success in the rate making process. Despite our requests, these regulatory commissions have authority under applicable statutes, rules and regulations to leave our rates unchanged, grant increases or order decreases in such rates. They have similar authority with respect to the recovery of our electricity and natural gas supply costs incurred by UES and FG&E in their role as a "provider of last resort" for customers who do not contract with third-party suppliers, or whose third-party supplier fails to deliver. In the event that we are unable to recover these costs or recovery of these costs were to be significantly delayed, our operating results could be materially adversely affected. Changes in regulations or the imposition of additional regulations could also have an adverse effect on our operating results.

As a result of industry restructuring, we have a significant amount of certain stranded energy supply costs, which are subject to recovery in future periods.

The stranded costs resulting from the implementation of industry restructuring mandated by the states of New Hampshire and Massachusetts are recovered by us on a pass-through basis through periodically adjusted rates. Any unrecovered balance of purchased power or stranded costs is deferred for future recovery as a regulatory asset. Such regulatory assets are subject to periodic regulatory review and approval for recovery in future periods.

Our power supply portfolio related stranded costs due to the electric industry restructuring in New Hampshire and Massachusetts for which regulatory approval has been obtained for recovery were approximately $42.0 million for FG&E and $30.7 million for UES as of December 31, 2007 (See total of $72.7 million on the Power Supply Buyout Obligations line of Regulatory Assets table of Note 1). Substantially all of FG&E's stranded costs relate to owned generation assets and power purchase agreements divested by FG&E under a long-term contract buy-out agreement. UES' stranded costs are attributable to the long-term power purchase agreements divested by Unitil Power under long-term contract buyout agreements. Because FG&E and Unitil Power remain ultimately responsible for purchase power payments underlying these long-term buyout agreements, FG&E and Unitil Power could incur additional stranded costs were they required to resell such divested entitlements prior to the end of their term for amounts less than the amounts agreed to under the existing long-term buyout agreements. We expect that any such additional stranded costs would be recovered from our customers, although such recovery would require approval from the MDPU or NHPUC, the receipt of which cannot be assured.

Our electric and natural gas sales and revenues are highly correlated with the economy, and national, regional and local economic conditions may negatively impact our customers and correspondingly our operating results and financial condition.

Our business is influenced by the economic activity of our franchise areas. The level of economic growth in our electric and natural gas distribution franchise areas directly affects our potential for future growth in our business. As a result, adverse changes in the economy may have negative effects on our revenues, operating results and financial condition.

Declines in the valuation of capital markets could require us to make substantial cash contributions to cover our pension obligations, which could negatively impact our financial condition. In addition, the recovery of certain pension obligations is subject to regulatory risks.

On August 17, 2006, the Pension Protection Act of 2006 (PPA) was signed into law. Included in the PPA are new minimum funding rules which will go into effect for plan years beginning in 2008. The funding target will be 100% of a plan's liability with any shortfall amortized over seven years, with lower (92% - 100%) funding targets available to well-funded plans during the transition period.

The Company made cash contributions of $2.8 million, $2.5 million and $2.5 million to its pension plan in 2007, 2006 and 2005, respectively, which exceeded minimum funding requirements. If the valuation of capital markets were to significantly decline from current levels, we may be required to make cash contributions to our pension plans substantially in excess of the levels currently anticipated, which could adversely affect our financial condition.

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans”, (SFAS No. 158) which requires companies to record on their balance sheets the funded status of their retirement benefit obligations (RBO). The Company has recognized a liability for the projected RBO of its plans and a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas retail rates. In the event that we are unable to recover these costs or recovery of these costs were to be significantly delayed, our operating results could be materially adversely affected. See Note 8 also.

Increases in interest rates could have a negative impact on our financial condition.

Our utility subsidiaries have ongoing capital expenditure requirements which they frequently fund by issuing short and long-term debt. Changes in interest rates do not affect interest expense associated with presently outstanding fixed rate long-term debt securities. However, changes in interest rates may affect the interest rate and corresponding interest expense on any new long-term debt securities that are issued. In addition, short-term debt borrowings are typically at variable rates of interest. As a result, changes in short-term interest rates will increase or decrease our interest expense associated with short-term borrowings. Increases in interest rates generally will increase our borrowing costs and could adversely affect our financial condition or results of operations.

Weather conditions may cause our sales to vary from year to year.

Our utility operating sales vary from year to year, depending on weather conditions. We estimate that approximately 75% of our annual natural gas sales are temperature sensitive. As a result, mild winter temperatures can cause a decrease in the amount of gas we sell in any year, particularly during the winter heating season. Our electric sales are generally less sensitive to weather than our gas sales, but may also be affected by weather conditions in both the winter and summer seasons.

We are a holding company and have no operating income of our own. Our ability to pay dividends on our common stock is dependent on dividends received from our subsidiaries and on factors directly affecting us, the parent corporation. We cannot assure you that our current annual dividend will be paid in the future.

We are a public utility holding company and we do not have any operating income of our own. Consequently, our ability to pay dividends on our common stock is dependent on dividends and other payments received from our subsidiaries, principally UES and FG&E. The ability of our subsidiaries to pay dividends or make distributions to us will depend on, among other things:

- the actual and projected earnings and cash flow, capital requirements and general financial condition of our subsidiaries;
- the prior rights of holders of existing and future preferred stock, mortgage bonds, long-term notes and other debt issued by our subsidiaries;
- the restrictions on the payment of dividends contained in the existing loan agreements of UES and FG&E and that may be contained in future debt agreements of our subsidiaries, if any;
- limitations that may be imposed by New Hampshire and Massachusetts state regulatory agencies.

In addition, we may incur indebtedness in the future. Before we can pay dividends on our common stock, we have to satisfy our debt obligations and comply with any statutory or contractual limitations.

Our current annual dividend is $1.38 per share of common stock, payable quarterly. However, our board of directors reviews our dividend policy periodically in light of the factors referred to above, and we cannot assure you of the amount of dividends, if any, that may be paid in the future.

Transporting and storing natural gas and supplemental gas supplies, as well as electricity, involve numerous risks that may result in accidents and other operating risks and costs.

Inherent in our electric and gas distribution activities are a variety of hazards and operating risks, such as leaks, explosions, electrocutions and mechanical problems that could cause substantial financial losses. In addition, these risks could result in loss of human life, significant damage to property, environmental pollution, and impairment of our operations and substantial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks and losses. The location of pipelines, storage facilities and electric distribution equipment near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. The occurrence of any of these events not fully covered by insurance could adversely affect our financial position and results of operations.

Our business is subject to environmental regulation in all jurisdictions in which we operate and our costs of compliance are significant. Any changes in existing environmental regulation and the incurrence of environmental liabilities could negatively affect our results of operations and financial condition.

Our utility operations are generally subject to extensive federal, state and local environmental laws and regulations relating to air quality, water quality, waste management, natural resources and the health and safety of our employees. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties; imposition of remedial requirements; and even issuance of injunctions to ensure future compliance. Liability under certain environmental laws is strict, joint and several in nature. Although we believe we are in general compliance with all applicable environmental and safety laws and regulations, there can be no assurance that significant costs and liabilities will not be incurred in the future. Moreover, it is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations, could result in increased environmental compliance costs. See “Environmental Matters” in the Part I, Item 1, and Note 5 of this report for further detail.

Catastrophic events could have a material adverse effect on our financial condition or results of operations.

The electric and natural gas utility industries are from time to time affected by catastrophic events, such as unusually severe weather and significant and widespread failures of plant and equipment. Other catastrophic occurrences, such as terrorist attacks on utility facilities, may occur in the future. Such events could have a material adverse effect on us, since they could inhibit our ability to continue providing electric and/or gas distribution services to our customers for an extended period, which is the principal source of our operating income.

Customers’ future performance under multi-year energy brokering contracts.

The Company’s non-regulated energy brokering business provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Revenues from this business are primarily derived from brokering fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts. The Company cannot guarantee customers’ future performance under multi-year energy brokering contracts.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2007, Unitil owned, through its retail distribution utilities: two operation centers, approximately 2,160 pole miles of local transmission and distribution overhead electric lines and 584 conduit bank miles of underground electric distribution lines, along with 49 electric substations, including three mobile electric substations. FG&E’s natural gas operations property includes a liquid propane gas plant, a liquid natural gas plant and 264 miles of underground gas mains. In addition, Unitil’s real estate subsidiary, Unitil Realty, owns the Company’s corporate headquarters building and the 12 acres on which it is located.

UES owns and maintains distribution operations centers in Concord, New Hampshire and Kensington, New Hampshire. UES’ 30 electric distribution substations, including a 5,000 kilovolt Ampere (kVA) mobile substation, constitute 214,037 kVA of capacity, which excludes capacity of spare transformers, for the transformation of electric energy from the 34.5 kV sub-transmission voltage to other primary distribution voltage levels. The electric substations are located on land owned by UES or occupied by UES pursuant to a perpetual easement.

UES has a total of approximately 1,601 pole miles of local transmission and distribution overhead electric lines and a total of 406 conduit bank miles of underground electric distribution lines. The electric distribution lines are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by UES without objection by the owners.

In the case of certain distribution lines, UES owns only a part interest in the poles upon which its wires are installed, the remaining interest being owned by telephone companies.

The physical utility properties of UES, with certain exceptions, and its franchises are pledged as security under its indenture of mortgage and deed of trust under which the respective series of first mortgage bonds of UES are outstanding.

FG&E’s electric properties consist principally of 559 pole miles of local transmission and distribution overhead electric lines, 178 conduit bank miles of underground electric distribution lines and 19 transmission and distribution stations (including two mobile electric substations). The capacity of these substations totals 443,150 kVA, which excludes capacity of spare transformers.

FG&E owns a liquid propane gas plant and a liquid natural gas plant and the land on which they are located. FG&E also has 264 miles of underground steel, cast iron and plastic gas mains.

FG&E’s electric substations, with minor exceptions, are located on land owned by FG&E or occupied by FG&E pursuant to a perpetual easement. FG&E’s electric distribution lines and gas mains are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by FG&E without objection by the owners. FG&E leases its distribution operations center located in Fitchburg, Massachusetts.

The Company believes that its facilities are currently adequate for their intended uses.

Item 3. Legal Proceedings

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. The Company believes, based upon information furnished by counsel and others, the ultimate resolution of these claims will not have a material impact on the Company's financial position.

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Registrant's Common Stock is traded on the American Stock Exchange. As of December 31, 2007, there were 1,342 Common Shareholders of record.

Common Stock Data

Dividends per Common Share	**2007**	2006
1st Quarter	**$ 0.345**	$ 0.345
2nd Quarter	**0.345**	0.345
3rd Quarter	**0.345**	0.345
4th Quarter	**0.345**	0.345
Total for Year	**$ 1.38**	$ 1.38

	2007		2006	
Price Range of Common Stock	**High/Ask**	**Low/Bid**	High/Ask	Low/Bid
1st Quarter	**$27.30**	**$25.10**	$26.11	$24.59
2nd Quarter	**$28.40**	**$26.65**	$26.05	$23.70
3rd Quarter	**$31.73**	**$27.07**	$24.97	$23.80
4th Quarter	**$29.97**	**$25.75**	$26.09	$23.82

Information regarding Securities Authorized for Issuance Under Equity Compensation Plans is set forth in the table below.

Equity Compensation Plan Benefit Information			
	(a)	**(b)**	**(c)**
Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))**
Equity compensation plans approved by security holders			
KESOP (1)	---	N/A	---
Restricted Stock Plan (2)	---	N/A	106,365
Equity compensation plans not approved by security holders			
1998 Option Plan (3)	107,000	$27.13	---
Total	107,000	$27.13	106,365

NOTES: (also see Note 2 to the Consolidated Financial Statements)

(1) The KESOP was approved by shareholders in July 1989. Options were granted between January 1989 and November 1997. The last outstanding KESOP option was exercised in September 2007. No options remain outstanding and no additional options may be granted under the KESOP.

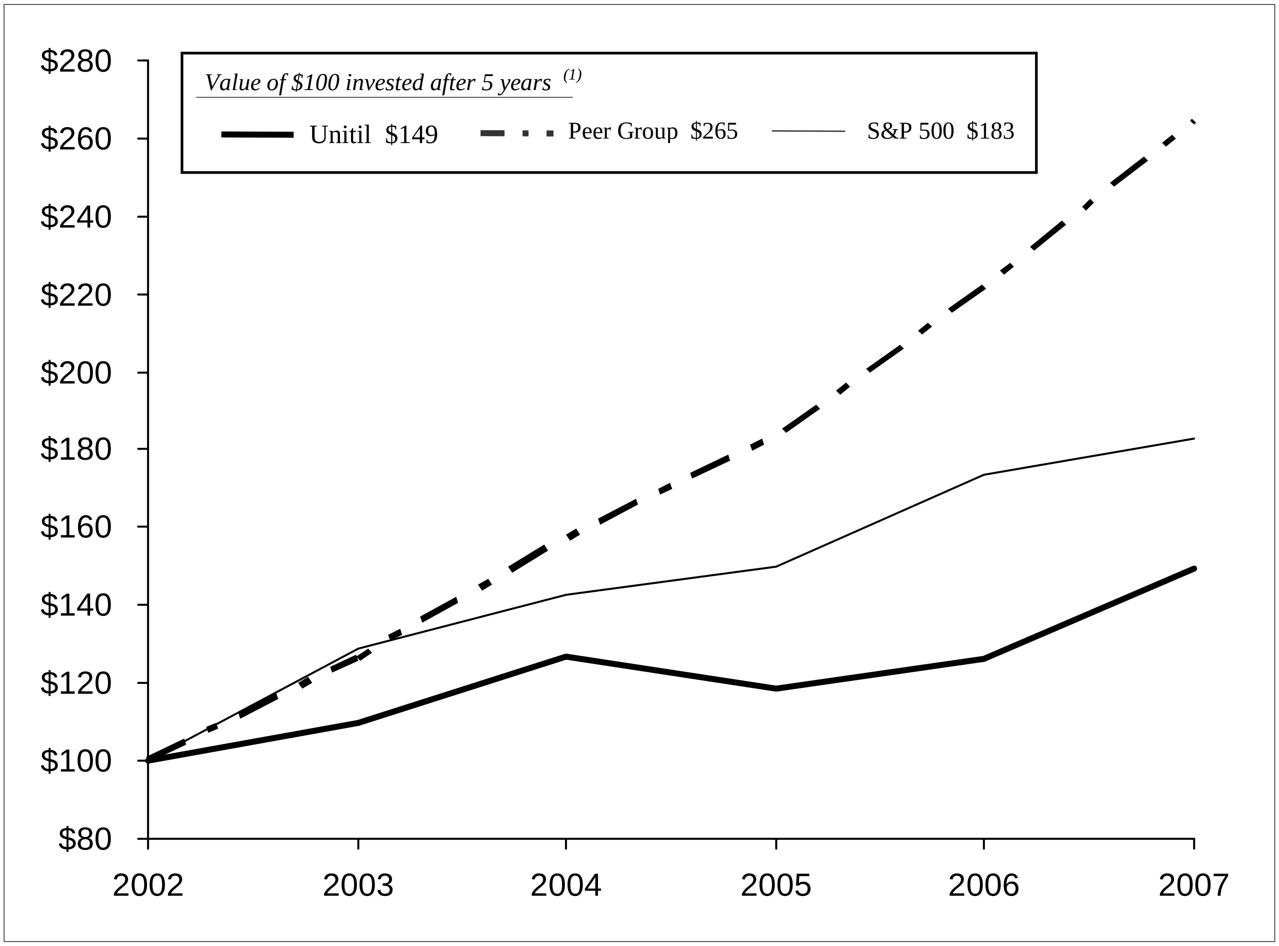
(2) The Restricted Stock Plan was approved by shareholders in April 2003. 10,600 shares of restricted stock were awarded to Plan participants in May 2003; 10,700 shares of restricted stock were awarded to Plan participants in April 2004; 10,900 shares of restricted stock were awarded to Plan participants in March 2005; 14,375 shares of restricted stock were awarded to Plan participants in February 2006; 9,020 shares of restricted stock were awarded to Plan participants in February 2007; 15,540 shares of restricted stock were awarded to Plan participants in February 2008.

(3) The 1998 Option Plan was adopted by the Board of Directors of the Company in December 1998. At the time of adoption, the 1998 Option Plan was not required, under American Stock Exchange rules, to obtain shareholder approval. Options were granted in March 1999, January 2000, and January 2001. On January 16, 2003, the Board of Directors terminated the Option Plan upon the recommendation of the Compensation Committee. In April 2004, the 177,500 remaining registered and ungranted shares in the Option Plan were deregistered with the Securities and Exchange Commission. The Option Plan will remain in effect solely for the purposes of the continued administration of all options currently outstanding under the Option Plan. No further grants of options will be made thereunder.

Stock Performance Graph

The following graph compares Unitil Corporation's cumulative stockholder return since December 31, 2002 with the Peer Group index, comprised of the S&P Utility Index, and the S&P 500 index. The graph assumes that the value of the investment in the Company's common stock and each index (including reinvestment of dividends) was $100 on December 31, 2002.

Comparative Five-Year Total Returns



NOTES:

(1) The graph above assumes $100 invested on December 31, 2002, in each category and the reinvestment of all dividends during the five-year period. The Peer Group is comprised of the S&P Utility Index.

Unregistered Sales of Equity Securities and Uses of Proceeds

There were no sales of unregistered equity securities by the Company for the fiscal period ended December 31, 2007.

The Company periodically repurchases shares of its Common Stock on the open market related to Employee Length of Service Awards. Shares are not purchased as part of a specific plan or program and therefore there is no pool or maximum number of shares related to these purchases. The Company expects to continue with these purchases indefinitely. Company repurchases are shown in the table below for the monthly periods noted:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/07 – 10/31/07	182	$29.10	182	n/a
11/1/07 – 11/30/07	---	---	---	n/a
12/1/07 – 12/31/07	---	---	---	n/a
Total	182	$29.10	182	n/a

Item 6. Selected Financial Data

For the Years Ended December 31, (all data in millions except shares, % and per share data)	**2007**	2006	2005	2004	2003
Consolidated Statements of Earnings:					
Operating Revenue	**$ 262.9**	$ 260.9	$ 232.1	$ 214.1	$ 220.7
Operating Income	**18.5**	15.8	15.5	15.2	15.4
Other Non-operating Expense (Income)	**0.2**	---	0.1	0.2	---
Income Before Interest Expense, net	**18.3**	15.8	15.4	15.0	15.4
Interest Expense, net	**9.6**	7.8	6.8	6.8	7.5
Net Income	**8.7**	8.0	8.6	8.2	7.9
Dividends on Preferred Stock	**0.1**	0.1	0.2	0.2	0.2
Earnings Applicable to Common Shareholders	**$ 8.6**	$ 7.9	$ 8.4	$ 8.0	$ 7.7
Balance Sheet Data:					
Utility Plant (Original Cost)	**$ 380.5**	$ 353.0	$ 325.0	$ 308.1	$ 288.7
Total Assets	**$ 474.6**	$ 483.4	$ 450.1	$ 457.0	$ 483.9
Capitalization:					
Common Stock Equity	**$ 100.4**	$ 97.8	$ 96.3	$ 94.3	$ 92.8
Preferred Stock	**2.1**	2.1	2.3	2.3	3.3
Long-Term Debt, less current portion	**159.6**	140.0	125.4	110.7	110.9
Total Capitalization	**$ 262.1**	$ 239.9	$ 224.0	$ 207.3	$ 207.0
Current Portion of Long-Term Debt	**$ 0.4**	$ 0.3	$ 0.3	$ 0.3	$ 3.3
Short-term Debt	**$ 18.8**	$ 26.0	$ 18.7	$ 25.7	$ 22.4
Capital Structure Ratios:					
Common Stock Equity	**38%**	41%	43%	46%	45%
Preferred Stock	**1%**	1%	1%	1%	2%
Long-Term Debt	**61%**	58%	56%	53%	53%
Earnings Per Share Data:					
Earnings Per Average Share	**$ 1.52**	$ 1.41	$ 1.51	$ 1.45	$ 1.58
Common Stock Data:					
Shares of Common Stock (000's)	**5,672**	5,612	5,568	5,525	4,896
Dividends Paid Per Share	**$ 1.38**	$ 1.38	$ 1.38	$ 1.38	$1.38
Book Value Per Share (Year-End)	**$ 17.50**	$ 17.30	$ 17.21	$ 17.00	$16.87
Electric and Gas Sales:					
Electric Distribution Sales (Millions kWh)	**1,743.0**	1,751.5	1,790.4	1,742.1	1,717.7
Firm Natural Gas Distribution Sales (Millions Therms)	**28.4**	26.4	24.3	23.2	24.6

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) (Note references are to Notes to the Consolidated Financial Statements in Item 8.)

OVERVIEW

Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil's principal business is the retail distribution of electricity and natural gas through its two principal utility subsidiaries: Unitil Energy System's Inc. (UES) and Fitchburg Gas and Electric Light Company (FG&E). UES is an electric utility with an operating franchise in the southeastern seacoast and capital city areas of New Hampshire. FG&E is a combination gas and electric utility with an operating franchise in the greater Fitchburg area of north central Massachusetts.

Unitil's two retail distribution utilities serve approximately 100,000 electric customers and 15,100 natural gas customers in their franchise areas. The retail distribution companies are local "pipes and wires" utilities with a combined investment in net utility plant of $248.9 million at December 31, 2007. Unitil's total revenue was $262.9 million in 2007. Earnings applicable to common shareholders for 2007 was $8.6 million. Substantially all of Unitil's revenue and earnings are derived from regulated utility operations.

Unitil also conducts non-regulated operations principally through its Usource subsidiary. Usource provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Usource's total revenues were $3.7 million in 2007. Unitil's other subsidiaries include Unitil Service and Unitil Realty, which provide centralized facilities, management and administrative services to Unitil's affiliated companies. Unitil's consolidated net income includes the earnings of the holding company and these subsidiaries.

CAUTIONARY STATEMENT

This report and the documents we incorporate by reference into this report contain statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included or incorporated by reference into this report, including, without limitation, statements regarding the financial position, business strategy and other plans and objectives for the Company's future operations, are forward-looking statements.

These statements include declarations regarding the Company's beliefs and current expectations. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. These forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the risks and uncertainties include the following:

- Variations in weather;
- Changes in the regulatory environment;
- Customers' preferences on energy sources;
- Interest rate fluctuation and credit market concerns;
- General economic conditions;
- Fluctuations in supply, demand, transmission capacity and prices for energy commodities;
- Increased competition; and
- Customers' future performance under multi-year energy brokering contracts.

Many of these risks are beyond the Company's control. Any forward-looking statements speak only as of the date of this report, and the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for the Company to predict all of these factors, nor can the Company assess the impact of any such factor on its business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements.

See also Item 1A. Risk Factors.

RESULTS OF OPERATIONS

The following section of MD&A compares the results of operations for each of the three fiscal years ended December 31, 2007, 2006 and 2005 and should be read in conjunction with the accompanying Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in Item 8 of this report.

Net Income and EPS Overview

2007 Compared to 2006 - The Company's Earnings Applicable to Common Shareholders (Net Income) was $8.6 million for 2007, an increase of 9% over 2006 Net Income of $7.9 million. Earnings per common share were $1.52 for 2007, $0.11 per share higher than last year.

Earnings in 2007 reflect higher electric and gas sales margins, driven by higher rates and increased sales of natural gas, and improved profits from Usource, Unitil's non-regulated energy-brokering business. Partially offsetting these factors were higher operating expenses.

The following table presents the significant items (discussed below) contributing to the change in earnings per share in 2007 as compared to 2006:

2007 Earnings Per Share vs. 2006

	2006	**$ 1.41**
Electric Sales Margin		0.21
Gas Sales Margin		0.23
Usource Sales Margin		0.14
Operation & Maintenance Expense		(0.06)
Depreciation, Amortization & Other		(0.22)
Interest Expense, Net		(0.19)
	2007	**$ 1.52**

Unitil's total electric kWh sales decreased 0.5% in 2007 compared to 2006. Electric kWh sales to residential customers increased 0.4% in 2007 compared to 2006. The lower kWh sales in 2007 compared to 2006 were primarily driven by cooler summer weather this year, energy conservation by our customers and a slowing economy.

Unitil's total therm sales of natural gas increased 7.6% in 2007 compared to 2006. The increase in gas sales in 2007 reflects a colder winter heating season this year and higher natural gas sales to C&I customers. In 2007, natural gas sales to residential customers increased 4.1% compared to 2006 while sales to C&I customers increased 9.6% compared to 2006, primarily due to a special contract with a large industrial customer.

Total electric and gas sales margin increased $3.9 million in 2007 compared to 2006. This increase reflects higher gas and electric rates and increased sales of natural gas.

Total O&M expense increased $0.5 million, or 1.9%, in 2007 compared to 2006. This increase reflects higher employee and retiree compensation and benefit expenses of $0.8 million, higher bad debt expenses of $0.1 million and an increase in all other operating expenses of $0.2 million, net, offset by lower distribution utility operating expenses of $0.6 million.

Depreciation, Amortization, Taxes and Other expenses increased $2.2 million in 2007 compared to 2006 reflecting higher depreciation on normal utility plant additions in 2007 and income taxes on higher levels of pre-tax earnings in 2007 compared to 2006.

Interest Expense, Net increased $1.8 million in 2007 compared to 2006 reflecting higher debt outstanding, higher interest rates and higher interest expense recorded on reconciling mechanisms.

Usource, our non-regulated energy brokering business, recorded revenues of $3.7 million in 2007, an increase of $1.3 million over 2006. Usource's revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource.

In 2007, Unitil's annual common dividend was $1.38, representing an unbroken record of quarterly dividend payments since trading began in Unitil's common stock. At its January, 2008 meeting, the Unitil Board of Directors declared a quarterly dividend on the Company's common stock of $0.345 per share.

2006 Compared to 2005 - The Company's Net Income was $7.9 million for 2006. Earnings per common share were $1.41 for 2006 compared to $1.51 for 2005. Earnings in 2006 reflect lower electric and gas sales. The lower sales in 2006 were primarily driven by milder weather compared to 2005. Earnings in 2006 also reflect higher operating and maintenance expenses and interest costs. Partially offsetting these factors was an increase in electric distribution rates in 2006 for Unitil's utility subsidiary in New Hampshire and increased gas delivery sales under a new contract with a large industrial customer in Massachusetts.

A more detailed discussion of the Company's 2007 and 2006 results of operations and a year-to-year comparison of changes in financial position are presented below.

Balance Sheet

The Company's investment in Net Utility Plant increased by $17.1 million in 2007 compared to 2006. This increase was due to capital expenditures related to UES' and FG&E's electric and gas distribution systems, including expenditures of approximately $6.6 million for the Company's Advanced Metering Infrastructure (AMI) project.

Regulatory Assets decreased $28.3 million in 2007 compared to 2006, primarily reflecting current year cost recoveries. A significant portion of this decrease is matched by a corresponding decrease of $19.9 million in Power Supply Contract Obligations.

Long-Term Debt increased $19.6 million in 2007 compared to 2006 reflecting the issuance and sale on May 2, 2007 by Unitil Corporation of $20.0 million of 6.33% Senior Long-Term Notes, due May 1, 2022, to institutional investors in the form of a private placement. Short-term Debt decreased $7.2 million in 2007 compared to 2006, as short-term borrowings were refinanced with the issuance of Senior Long-Term Notes, discussed above.

Electric Sales, Revenues and Margin

Kilowatt-hour Sales – Unitil's total electric kWh sales decreased 0.5% in 2007 compared to 2006. Electric kWh sales to residential customers increased 0.4% in 2007 compared to 2006. The lower total kWh sales in 2007 compared to 2006 were driven by cooler summer weather this year, energy conservation by customers in response to higher overall energy prices and environmental concerns, and a slowing economy.

Unitil's total kWh sales decreased 2.2% in 2006 compared to 2005. This decrease reflects a decline in average energy usage per customer, primarily due milder weather in 2006 compared to 2005 and increased energy conservation by customers.

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

kWh Sales (millions)

				2007 vs. 2006		2006 vs. 2005	
	2007	**2006**	**2005**	**Change kWh**	**Change %**	**Change kWh**	**Change %**
Residential	**674.8**	672.2	688.3	2.6	0.4%	(16.1)	(2.3%)
Commercial / Industrial	**1,068.2**	1,079.3	1,102.1	(11.1)	(1.0%)	(22.8)	(2.1%)
Total	**1,743.0**	1,751.5	1,790.4	(8.5)	(0.5%)	(38.9)	(2.2%)

Electric Operating Revenues and Sales Margin – The following table details total Electric Operating Revenue and Sales Margin for the last three years by major customer class:

Electric Operating Revenues and Sales Margin (millions)

				2007 vs. 2006		2006 vs. 2005	
	2007	**2006**	**2005**	**$ Change**	**% Change (1)**	**$ Change**	**% Change(1)**
Electric Operating Revenue:							
Residential	**$ 114.7**	$ 105.9	$ 85.3	$ 8.8	3.9%	$ 20.6	10.4%
Commercial / Industrial	**110.3**	119.3	112.0	(9.0)	(4.0%)	7.3	3.7%
Total Electric Operating Revenue	**$ 225.0**	$ 225.2	$ 197.3	$ (0.2)	(0.1%)	$ 27.9	14.1%
Cost of Electric Sales:							
Purchased Electricity	**$ 165.4**	$ 167.3	$ 138.1	$ (1.9)	(0.8%)	$ 29.2	14.8%
Conservation & Load Management	**3.4**	3.6	3.8	(0.2)	(0.1%)	(0.2)	(0.1%)
Electric Sales Margin	**$ 56.2**	$ 54.3	$ 55.4	$ 1.9	0.8%	$ (1.1)	(0.6%)

(1) Represents change as a percent of Total Electric Operating Revenue.

Total Electric Operating Revenues decreased by $0.2 million, or 0.1%, in 2007 compared to 2006. Total Electric Operating Revenues include the recovery of costs of electric sales, which are recorded as Purchased Electricity and Conservation & Load Management (C&LM) in Operating Expenses. The net decrease in Total Electric Operating Revenues in 2007 reflects lower Purchased Electricity costs of $1.9 million and lower C&LM revenues of $0.2 million, offset by higher sales margin of $1.9 million.

Purchased Electricity and C&LM revenues decreased $2.1 million, or 0.9%, of Total Electric Operating Revenues in 2007 compared to 2006, primarily reflecting an increase in the amount of electricity purchased by customers directly from third-party suppliers, partially offset by higher electric commodity prices. Purchased Electricity revenues include the recovery of the cost of electric supply as well as other energy supply related restructuring costs, including long-term power supply contract buyout costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. The Company recovers the cost of Purchased Electricity and C&LM in its rates at cost on a pass through basis.

Electric sales margin increased $1.9 million in 2007 compared to 2006. The improvement in electric sales margin reflects higher average distribution rates in 2007 compared to 2006, partially offset by lower sales volumes due to cooler summer weather this year, energy conservation by customers in response to higher overall energy prices and environmental concerns, and a slowing economy.

In 2006, Total Electric Operating Revenues increased by $27.9 million, or 14.1%, compared to 2005. The net increase in Total Electric Operating Revenues in 2006 reflects higher Purchased Electricity costs of $29.2 million, offset by lower sales margin of $1.1 million and lower C&LM revenues of $0.2 million. Purchased Electricity and C&LM revenues increased a net $29.0 million, or 14.7%, of Total Electric Operating Revenues in 2006 compared to 2005, reflecting higher electric commodity prices.

Electric sales margin was lower by $1.1 million in 2006 compared to 2005, reflecting a decrease in revenue of $3.2 million related to the expiration of the Seabrook Amortization Surcharge (SAS) in late 2005. Absent the decrease in SAS revenues, electric sales margin increased $2.1 million in 2006 compared to 2005. The higher sales margin in 2006 primarily reflects the Company's approved base rate increase in New Hampshire of $2.7 million, partially offset by lower sales margin of $0.6 million resulting from a decline in average energy usage per customer, primarily due to significantly milder weather and energy conservation.

Gas Sales, Revenues and Margin

Therm Sales - Unitil's total therm sales of natural gas increased 7.6% in 2007 compared to 2006. The increase in gas sales in 2007 reflects a colder winter heating season this year and higher natural gas sales to C&I customers. In 2007, natural gas sales to residential customers increased 4.1% compared to 2006 while sales to C&I customers increased 9.6% compared to 2006, primarily due to a special contract with a large industrial customer.

Unitil's total therm sales of natural gas increased 8.6% in 2006 compared to 2005, due to a new gas transportation sales contract with a large industrial customer. Sales to residential customers decreased 10.9% in 2006 compared to 2005 due to a milder winter heating season in 2006 compared to the prior year. Sales to C&I customers increased 24.8% in 2006 compared to 2005. Absent the sales from the new contract, discussed above, sales to C&I customers were 10.4% lower in 2006 compared to 2005 primarily due to a milder winter heating season.

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

Therm Sales (millions)

				2007 vs. 2006		2006 vs. 2005	
	2007	**2006**	**2005**	**Change**	**Change %**	**Change**	**Change %**
Residential	**10.2**	9.8	11.0	0.4	4.1%	(1.2)	(10.9%)
Commercial / Industrial	**18.2**	16.6	13.3	1.6	9.6%	3.3	24.8%
Total	**28.4**	26.4	24.3	2.0	7.6%	2.1	8.6%

Gas Operating Revenues and Sales Margin – The following table details total Gas Operating Revenue and Margin for the last three years by major customer class:

Gas Operating Revenues and Sales Margin (millions)

				2007 vs. 2006		2006 vs. 2005	
	2007	**2006**	**2005**	**$ Change**	**% Change[1]**	**$ Change**	**% Change[1]**
Gas Operating Revenue:							
Residential	**$ 18.8**	$ 17.2	$ 18.1	$ 1.6	4.8%	$ (0.9)	(2.8%)
Commercial / Industrial	**15.4**	16.1	14.7	(0.7)	(2.1%)	1.4	4.3%
Total Gas Operating Revenue	**$ 34.2**	$ 33.3	$ 32.8	$ 0.9	2.7%	$ 0.5	1.5%
Cost of Gas Sales:							
Purchased Gas	**$ 21.3**	$ 22.4	$ 21.2	$ (1.1)	(3.3%)	$ 1.2	3.7%
Conservation & Load Management	**0.2**	0.2	0.3	---	---	(0.1)	(0.4%)
Gas Sales Margin	**$ 12.7**	$ 10.7	$ 11.3	$ 2.0	6.0%	$ (0.6)	(1.8%)

[1] Represents change as a percent of Total Gas Operating Revenue.

Total Gas Operating Revenues increased $0.9 million, or 2.7%, in 2007 compared to 2006. Total Gas Operating Revenues include the recovery of the cost of sales, which are recorded as Purchased Gas and C&LM in Operating Expenses. The increase in Total Gas Operating Revenues in 2007 reflects higher sales margin of $2.0 million, partially offset by lower Purchased Gas costs of $1.1 million.

Purchased Gas and C&LM revenues decreased $1.1 million, or 3.3%, of Total Gas Operating Revenues in 2007 compared to 2006, reflecting lower natural gas commodity prices and an increase in the amount of natural gas purchased by customers directly from third-party suppliers. Purchased Gas revenues include the recovery of the cost of gas supply as well as the other energy supply related costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. The Company recovers the cost of Purchased Gas and C&LM in its rates at cost on a pass through basis.

Natural gas sales margin increased $2.0 million in 2007 compared to 2006 reflecting higher sales and new natural gas distribution rates approved and implemented in 2007.

In 2006, Total Gas Operating Revenues increased $0.5 million, or 1.5%, compared to 2005. The net increase in Total Gas Operating Revenues in 2006 reflects higher Purchased Gas costs of $1.2 million, offset by lower sales margin of $0.6 million and lower C&LM revenues of $0.1 million. Purchased Gas and C&LM revenues increased a net $1.1 million, or 3.3%, of Total Gas Operating Revenues in 2006 compared to 2005, reflecting higher gas commodity prices and higher unit sales during those periods.

Gas sales margin for 2006 decreased $0.6 million compared to 2005. This decline in gas sales margin was due to lower therm sales, which, absent the sales from the new contract were 10.8% lower in 2006 compared to 2005. The lower gas sales were primarily due to a milder winter heating season. The weather in the Company's service territories in the winter of 2006 was approximately 12% warmer than in the same period for 2005, reflecting a record warm winter heating season.

Operating Revenue - Other

Total Other Revenue increased $1.3 million in 2007 compared to 2006 and $0.4 million in 2006 compared to 2005. These increases were the result of growth in revenues from the Company's non-regulated energy brokering business, Usource. Usource's revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource.

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

Other Revenue (millions)

				2007 vs. 2006		2006 vs. 2005	
	2007	**2006**	**2005**	**$ Change**	**% Change**	**$ Change**	**% Change**
Usource	$ 3.7	$ 2.4	$ 2.0	$ 1.3	54.2%	$ 0.4	20.0%
Total Other Revenue	$ 3.7	$ 2.4	$ 2.0	$ 1.3	54.2%	$ 0.4	20.0%

Operating Expenses

Purchased Electricity – Purchased Electricity includes the cost of electric supply as well as other energy supply related restructuring costs, including power supply buyout costs. Purchased Electricity decreased $1.9 million, or 1.1%, in 2007 compared to 2006. This decrease reflects lower electric kWh sales and an increase in the amount of electricity purchased by customers directly from third-party suppliers, partially offset by higher electric commodity prices. The Company recovers the costs of Purchased Electricity in its rates at cost and therefore changes in these expenses do not affect earnings.

In 2006, Purchased Electricity expenses increased $29.2 million, or 21.1%, compared to 2005 due to higher electric commodity prices.

Purchased Gas – Purchased Gas includes the cost of natural gas purchased and manufactured to supply the Company's total gas supply requirements. Purchased Gas decreased $1.1 million, or 4.9%, in 2007 compared to 2006. The decrease in Purchased Gas is attributable to lower gas commodity prices and an increase in the amount of natural gas purchased by customers directly from third party suppliers, partially offset by increased therm sales. The Company recovers the costs of Purchased Gas in its rates at cost on a pass through basis and therefore changes in these expenses do not affect Net Income.

In 2006, Purchased Gas increased by $1.2 million, or 5.7%, compared to 2005, reflecting increased therm sales and higher gas commodity costs.

Operation and Maintenance (O&M) - O&M expense includes electric and gas utility operating costs, and the operating costs of the Company's non-regulated business activities. Total O&M expense increased $0.5 million, or 1.9%, in 2007 compared to 2006. This increase reflects higher employee and retiree compensation and benefit expenses of $0.8 million, higher bad debt expenses of $0.1 million and an increase in all other operating expenses of $0.2 million, net, offset by lower distribution utility operating expenses of $0.6 million.

In 2006, total O&M expense increased $1.2 million, or 4.9%, compared to 2005. This increase reflects higher retiree and employee compensation and benefit costs of $1.1 million and an increase in all other operating expenses of $0.1 million, net.

Conservation & Load Management - Conservation and Load Management expenses are expenses associated with the development, management, and delivery of the Company's energy efficiency programs. Energy efficiency programs are designed, in conformity to state regulatory requirements, to help consumers use natural gas and electricity more efficiently and thereby decrease their energy costs. Programs are tailored to residential, small business and large business customer groups and provide educational materials, technical assistance, and rebates that contribute toward the cost of purchasing and installing approved measures. Approximately 90% of these costs are related to electric operations and 10% to gas operations.

Total Conservation & Load Management expenses decreased slightly, by $0.2 million, in 2007 compared to 2006. These costs are collected from customers on a fully reconciling basis and therefore, fluctuations in program costs do not affect earnings.

Total Conservation & Load Management expenses decreased $0.3 million in 2006 compared to 2005.

Depreciation and Amortization - Depreciation and Amortization expense increased $1.7 million, or 10.6% in 2007 compared to 2006 reflecting higher depreciation on normal utility plant additions in 2007.

In 2006, Depreciation and Amortization expense decreased $3.0 million, or 15.7%, compared to 2005, reflecting lower amortization on regulatory assets, including Seabrook Station, and lower depreciation rates on utility plant established in the Company's electric rate case settlement in New Hampshire, partially offset by depreciation on normal utility plant additions. The Company's regulatory asset related to its former abandoned property investment in Seabrook Station became fully-amortized in the third quarter of 2005.

Local Property and Other Taxes - Local Property and Other Taxes increased by $0.1 million, or 1.8%, in 2007 compared to 2006. This increase was due to higher local property tax rates on higher levels of utility plant in service and higher payroll taxes.

In 2006, Local Property and Other Taxes increased by $0.2 million, or 3.8% compared to 2005. This increase was due to higher local property tax rates on higher levels of utility plant in service and higher payroll taxes.

Federal and State Income Taxes - Federal and State Income Taxes increased by $0.2 million in 2007 compared to 2006 due to higher pre-tax operating income in 2007 compared to 2006.

Federal and State Income Taxes were essentially flat in 2006 compared to 2005 due to lower pre-tax operating income in 2006 compared to 2005 offset by a higher effective tax rate in 2006 related to the Company's former abandoned property investment in Seabrook Station, discussed above.

Other Non-operating Expenses (Income)

Other Non-operating Expenses (Income) increased by $0.2 million in 2007 compared to 2006. This change reflects the recognition in 2006 of a gain on the sale of land and timber harvest revenue.

Other Non-operating Expenses (Income) improved to income of $19,000 in 2006 compared to an expense of $147,000 in 2005, due to the gain discussed above.

Interest Expense, net

Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. Certain reconciling rate mechanisms used by the Company's distribution operating utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated (See Note 3).

In 2007, Total Interest Expense, net, rose by $1.8 million compared to 2006. This increase principally reflects the issuance of new long-term debt by Unitil on May 2, 2007. Unitil issued and sold $20 million of Senior Long-Term Notes at a coupon rate of 6.33%, through a private placement to institutional investors. The Company utilized the proceeds from the long-term Note financing to refinance existing short-term debt and for other corporate purposes of the Company's principal utility subsidiaries. The resulting reduction in average daily short-term bank borrowings lowered short-term interest expense for the year which partially offset the increase in long-term interest expense.

In 2006, Total Interest Expense, net, increased by $1.0 million compared to 2005. Interest expense on long-term borrowings increased due to the issuance of new fixed rate long-term debt. Unitil's New Hampshire subsidiary, UES, issued and sold $15 million of Series O, 6.32% First Mortgage Bonds to institutional investors on September 26, 2006. In December 2005, Unitil's Massachusetts utility subsidiary, FG&E, issued $15 million of unsecured long-term notes to institutional investors at an interest rate of 5.90%. The proceeds from these long-term financings were used principally to finance utility plant additions that had been previously financed on an interim basis with short-term bank borrowings. Interest expense on short-term debt increased compared to 2005 primarily due to higher variable short-term interest rates. These increases in interest expense were partially offset by an increase in interest income due to higher carrying charges on regulatory assets.

LIQUIDITY, COMMITMENTS AND CAPITAL REQUIREMENTS

Sources of Capital

Unitil requires capital to fund utility plant additions, working capital and other utility expenditures recovered in subsequent and future periods through regulated rates. The capital necessary to meet these requirements is derived primarily from internally-generated funds, which consist of cash flows from operating activities, excluding payment of dividends. The Company initially supplements internally generated funds through bank borrowings, as needed, under unsecured short-term bank lines. At December 31, 2007, Unitil had an aggregate of $30.0 million in unsecured revolving lines of credit with three banks. The Company anticipates that it will be able to secure renewal or replacement of some or all of its revolving lines of credit, in accordance with projected requirements. The Company had short-term debt outstanding through bank borrowings of $18.8 million and $26.0 million at December 31, 2007 and December 31, 2006, respectively. In addition, Unitil had approximately $4.6 million in cash at December 31, 2007. Periodically, the Company replaces portions of its short-term debt with long-term financings more closely matched to the long-term nature of its utility assets.

The maximum amount of short-term borrowings that may be incurred by Unitil and its subsidiaries has been subject to periodic approval by the Company's regulatory agencies. At December 31, 2007, Unitil had regulatory authorization to incur total short-term bank borrowings up to a maximum of $55 million, and UES and FG&E had regulatory authorizations to borrow up to a maximum of $16 million and $35 million, respectively. In 2007, UES and FG&E had average short-term debt outstanding of $7.9 million and $18.1 million, respectively.

Unitil and its subsidiaries are individually and collectively members of the Unitil Cash Pool. The Cash Pool is the financing vehicle for day-to-day cash borrowing and investing. The Cash Pool Agreement allows for an efficient exchange of cash among Unitil and its subsidiaries. The interest rates charged to the subsidiaries for borrowing from the Cash Pool are based on Unitil's actual interest costs from its banks under the revolving lines of credit. At December 31, 2007, all Unitil subsidiaries were in compliance with the regulatory requirements to participate in the Cash Pool.

On May 2, 2007, Unitil completed the sale of $20 million of Senior Long-Term Notes, through a private placement to institutional investors. The Notes have a term of 15 years maturity and a coupon rate of 6.33%. The Company utilized the proceeds from the long-term Note financing to refinance existing short-term debt and for other corporate purposes of the Company's principal utility subsidiaries (see Note 3).

On September 26, 2006, UES issued and sold $15.0 million of Series O 6.32% First Mortgage Bonds, due September 15, 2036, to institutional investors in the form of a private placement (see Note 3). The proceeds from this long-term financing were used to repay short-term bank borrowings and permanently finance utility plant additions. In December 2005, FG&E issued and sold $15.0 million of 5.90% unsecured long-term notes under a debenture note structure (see Note 3). The proceeds were utilized to repay outstanding short-term indebtedness of FG&E and permanently finance utility plant additions. The Company expects to continue to be able to satisfy its external financing needs by utilizing additional short-term bank borrowings and to periodically replace short-term debt with long-term financings.

The continued availability of these methods of financing, as well as the Company's choice of a specific form of security, will depend on many factors, including, but not limited to: security market conditions; general economic climate; regulatory approvals; the ability to meet covenant issuance restrictions, if any; the level of the Company's earnings, cash flows and financial position; and the competitive pricing offered by financing sources.

Contractual Obligations

The table below lists the Company's significant contractual obligations as of December 31, 2007.

		Payments Due by Period			
Significant Contractual Obligations (millions) as of December 31, 2007	**Total**	**2008**	**2009-2010**	**2011-2012**	**2013 & Beyond**
Long-term Debt	$ 160.0	$ 0.4	$ 0.8	$ 1.0	$ 157.8
Capital Leases	0.8	0.3	0.3	0.2	---
Operating Leases	2.8	0.5	1.0	0.9	0.4
Power Supply Contract Obligations – MA	42.0	8.1	16.7	16.6	0.6
Power Supply Contract Obligations – NH	30.7	11.9	14.4	1.2	3.2
Gas Supply Contracts	23.2	16.0	3.9	3.0	0.3
Total Contractual Cash Obligations	**$ 259.5**	**$ 37.2**	**$ 37.1**	**$ 22.9**	**$ 162.3**

The Company has material energy supply commitments that are discussed in Note 4. Cash outlays for the purchase of electricity and natural gas to serve our customers are subject to reconciling recovery through periodic changes in rates, with carrying charges on deferred balances. From year to year, there are likely to be timing differences associated with the cash recovery of such costs, creating under- or over-recovery situations at any point in time. Rate recovery mechanisms are typically designed to collect the under-recovered cash or refund the over collected cash over subsequent 6-12 month periods.

The Company also provides limited guarantees on certain electric supply contracts entered into by the retail distribution utilities. The Company's policy is to limit these guarantees to two years or less. As of December 31, 2007 there are $6.5 million of guarantees outstanding and these guarantees extend through March 13, 2009.

Benefit Plan Funding

In 2007 and 2006, the Company and its subsidiaries made cash contributions to its pension plan in the amount of $2.8 million and $2.5 million, respectively. In 2007 and 2006, the Company and its subsidiaries contributed approximately $2.5 million and $2.2 million, respectively, to Voluntary Employee Benefit Trusts (VEBT). The Company and its subsidiaries expect to continue to make contributions to its pension plan and the VEBT's in future years in amounts consistent with the amounts recovered in retail distribution utility rates for these other postretirement benefit costs. (See Note 8).

Off-Balance Sheet Arrangements

The Company does not currently use, and is not dependent on the use of off-balance sheet financing arrangements, such as securitization of receivables, or obtaining access to assets or cash through special purpose entities or variable interest entities. The Company does have an operating lease agreement with a major financial institution. The operating lease is used to finance the Company's utility vehicles. (See Note 3).

Cash Flows

The tables below summarize the major sources and uses of cash (in millions) for 2007 compared to 2006.

	2007	2006
Cash Provided by Operating Activities	**$ 26.8**	$ 20.4

Cash Provided by Operating Activities – Cash Provided by Operating Activities was $26.8 million in 2007, an increase of $6.4 million compared to 2006. Sources of cash from Net Income were higher by $0.7 million compared to last year and sources of cash from Depreciation and Amortization rose by approximately $1.7 million. An additional $1.4 million of cash was utilized for Deferred Tax Provisions during the current year. Working capital related cash flows decreased $0.8 million in 2007 compared to 2006. Included in this change in working capital cash flows was an increase of $6.0 million year over year from Accrued Revenue, principally due to the recoveries of accrued revenues through reconciling cost recovery mechanisms. Sources of cash related to Deferred Restructuring Costs increased by $5.5 million in 2007 year over year, reflecting improvement in net cash flows for the collection of deferred costs related to utility industry restructuring. All other changes in cash flows from operating activities were a net increase of $0.7 million in sources of cash in 2007 compared to 2006.

	2007	2006
Cash (Used in) Investing Activities	**$ (32.5)**	$ (33.6)

Cash (Used in) Investing Activities - Cash (Used in) Investing Activities in 2007 was $32.5 million, a decrease of $1.1 million compared to 2006. Cash used in investing activities is primarily for capital expenditures related to UES' and FG&E's electric and gas distribution systems. Capital expenditures are projected to be $29.3 million in 2008, reflecting normal electric and gas utility plant additions. Capital expenditure projections are subject to changes during the fiscal year.

		2007		2006
Cash Provided by Financing Activities	**$**	**5.7**	$	14.6

Cash Provided by Financing Activities – Cash Provided by Financing Activities was $5.7 million in 2007, a decrease of $8.9 compared to 2006. Cash provided from short-term debt declined by $14.5 million in 2007, principally reflecting the repayment of short-term debt from the issuance of $20 million in Senior Long-Term Notes by Unitil in May 2007, described above. Proceeds from long-term debt issuances increased by $5.0 million in 2007 as compared to 2006, reflecting the issuance of $20 million in Unitil Notes in 2007 and the $15 million in UES Bond financings in 2006, described above. All other cash flows provided from other financing activities aggregated to a net change in cash flows of $0.6 million in 2007.

FINANCIAL COVENANTS AND RESTRICTIONS

The agreements under which the long-term debt of Unitil and its retail distribution utilities, UES and FG&E, were issued contain various covenants and restrictions. These agreements do not contain any covenants or restrictions pertaining to the maintenance of financial ratios or the issuance of short-term debt. These agreements do contain covenants relating to, among other things, the issuance of additional long-term debt, cross-default provisions and business combinations (See Note 3).

The long-term debt and preferred stock of Unitil, UES and FG&E are privately held, and the Company does not issue commercial paper. For these reasons, the debt securities of Unitil and its subsidiaries are not publicly rated.

DIVIDENDS

Unitil's annualized common dividend was $1.38 per common share in 2007, 2006 and 2005. Unitil's dividend policy is reviewed periodically by the Board of Directors. Unitil has maintained an unbroken record of quarterly dividend payments since trading began in Unitil's common stock. At its January, 2008 meeting, the Unitil Board of Directors declared a quarterly dividend on the Company's common stock of $0.345 per share. The amount and timing of all dividend payments are subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial conditions and other factors.

REGULATORY MATTERS

Overview – Unitil's retail distribution utilities have the franchise to deliver electricity and/or natural gas to all customers in the Company's franchise areas, at rates established under traditional cost of service regulation. Under this regulatory structure, UES and FG&E recover the cost of providing distribution service to their customers based on a representative test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in Massachusetts and New Hampshire, all of Unitil's customers have the opportunity to purchase their electric or natural gas supplies from third-party suppliers. Most small and medium-sized customers, however, continue to purchase such supplies through UES and FG&E as the providers of basic or default service energy supply. UES and FG&E purchase electricity or natural gas for basic or default service from unaffiliated wholesale suppliers and recover the actual costs of these supplies, without profit or markup, through reconciling, pass-through rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, Unitil Power and FG&E divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. UES and FG&E recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the New Hampshire Public Utilities Commission (NHPUC) and Massachusetts Department of Public Utilities (MDPU), respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next three to five years, is $104.8 million as of December 31, 2007 and is included in Regulatory Assets on the Company's Consolidated Balance Sheet. Unitil's retail distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans (See Note 5).

FG&E – Electric Division – On August 17, 2007, FG&E filed an electric distribution rate increase of $3.3 million, which represents an increase of 4.7 percent over FG&E's 2006 total electric operating revenue. The MDPU has suspended the effective date until March 1, 2008 in order to investigate the propriety of the Company's request. Evidentiary hearings were held in November 2007 and briefing was completed in January 2008. The Company anticipates that it will receive a final order from the MDPU with an effective date for new electric rates of March 1, 2008.

FG&E – Gas Division – FG&E provides natural gas delivery service to its customers on a firm or interruptible basis under unbundled distribution rates approved by the MDPU. Its current retail distribution rates were approved by the MDPU in 2007. FG&E's customers may purchase gas supplies from third-party vendors or purchase their gas from FG&E as the provider of last resort. FG&E collects its gas supply costs through a seasonal reconciling Cost of Gas Adjustment Clause and recovers other related costs through a reconciling Local Distribution Adjustment Clause.

On January 26, 2007, the MDPU approved a rate Settlement Agreement (Settlement) between FG&E and the Attorney General of Massachusetts for FG&E's Gas Division. Under the Settlement, FG&E increased its gas distribution rates by $1.2 million on February 1, 2007, and an additional $1.0 million on November 1, 2007. The Settlement also included agreement on several other rate matters and service quality performance measures for the Company's Gas Division in the areas of safety, customer service and satisfaction.

FG&E – Other – On June 22, 2007, the MDPU opened an inquiry into revenue decoupling, generally defined as a ratemaking mechanism designed to eliminate or reduce the dependence of a utility's distribution revenues on sales. Revenue decoupling is adopted with the intent of removing the disincentive a utility has to administer and promote customer efforts to reduce energy consumption and demand or to install distributed generation to displace electricity delivered by the utility. The order included a straw proposal for a base revenue adjustment mechanism that severs the link between electric and gas companies' revenues and sales, and instead, ties company revenues to the number of customers served. Many interested parties filed comments on the elements of the straw proposal and on revenue decoupling in general. Several parties also provided comments in panel hearings organized by the MDPU. Unitil filed comments generally supporting revenue decoupling and recommended modifications to the MDPU's straw proposal. This matter remains pending.

UES – UES provides electric distribution service to its customers pursuant to rates approved by the NHPUC. Its current retail electric distribution rates were approved by the NHPUC in 2006 under a Settlement Agreement with the NHPUC.

On June 22, 2007, the NHPUC issued an order in its investigation into implementation of the federal Energy Policy Act of 2005 regarding the adoption of standards for time-based metering and interconnection. This order set the framework for implementation of time based rates for utility provided default service. On August 31, 2007, the NHPUC issued an order on motion for rehearing, staying the June 22, 2007 order pending hearing and reconsideration of the issues. An order following hearing was issued on January 22, 2008 finding that it is appropriate to implement time-based metering standards and ordering that the details, including cost-benefit analyses, form of rate design, time of implementation and applicable customer classes shall be determined in separate proceedings to be initiated by the Commission.

On May 14, 2007, the NHPUC issued an order opening an investigation into the merits of instituting appropriate rate mechanisms, such as revenue decoupling, which would have the effect of removing obstacles to, and encouraging investment in, energy efficiency. Several parties attended the prehearing conference on June 18, 2007 and subsequent technical sessions. On July 30, 2007, the gas and electric utilities made baseline presentations designed to assist the parties in understanding current regulatory methods and the utilities' assessment of existing incentives and barriers to energy efficiency investment. On November 7, 2007, the Commission hosted expert presentations about the potential of various regulatory approaches to promote energy efficiency. The proceeding remains open.

ENVIRONMENTAL MATTERS

The Company's past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. The Company believes it is in compliance with all applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2007, there are no material losses reasonably possible in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

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

FG&E recovers the environmental response costs incurred at this former MGP site not recovered by insurance or other means in gas rates pursuant to terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, FG&E is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs. In addition FG&E has filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. Any recovery that FG&E receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between FG&E and its gas customers.

FG&E is in the process of developing long range plans for a feasible permanent remediation solution for the Sawyer Passway site, including alternatives for re-use of the site. Included on the Company's Consolidated Balance Sheet at December 31, 2007 and 2006 in Environmental Obligations is $12.0 million related to estimated future clean up costs for permanent remediation of the site. A corresponding regulatory asset was recorded to reflect the future rate recovery for these costs. The amounts recorded do not assume any amounts are recoverable from insurance companies or other third parties.

The Company's ultimate liability for future environmental remediation costs may vary from estimates, which may be adjusted as new information or future developments become available. Based on the Company's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, the Company does not believe that these environmental costs will have a material adverse effect on the Company's consolidated financial position or results of operations.

EMPLOYEES AND EMPLOYEE RELATIONS

As of December 31, 2007, the Company and its subsidiaries had 291 employees. The Company considers it relationships with employees to be good and has not experienced any major labor disruptions.

There are approximately 85 employees represented by labor unions. These employees are covered by collective bargaining agreements, which expire May 31, 2010. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. The Company expects to successfully negotiate new agreements prior to their expiration dates.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In making those estimates and assumptions, the Company is sometimes required to make difficult, subjective and/or complex judgments about the impact of matters that are inherently uncertain and for which different estimates that could reasonably have been used could have resulted in material differences in its financial statements. If actual results were to differ significantly from those estimates, assumptions and judgment, the financial position of the Company could be materially affected and the results of operations of the Company could be materially different than reported. The following is a summary of the Company's most critical accounting policies, which are defined as those policies where judgments or uncertainties could materially affect the application of those policies. For a complete discussion of the Company's significant accounting policies, refer to the financial statements and Note 1: Summary of Significant Accounting Policies.

Regulatory Accounting - The Company's principal business is the distribution of electricity and natural gas by the retail distribution companies: UES and FG&E. Both UES and FG&E are subject to regulation by the FERC and FG&E is regulated by the MDPU and UES is regulated by the NHPUC. Accordingly, the Company uses the provisions of FASB Statement No. 71, "Accounting for the Effects of Certain Types of Regulation." (SFAS No. 71). In accordance with SFAS No. 71, the Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered or refunded in future electric and gas retail rates.

SFAS No. 71 specifies the economic effects that result from the cause and effect relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or "regulatory assets" under SFAS No. 71. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or "regulatory liabilities" under SFAS No. 71.

If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of SFAS No. 71. If unable to continue to apply the provisions of SFAS No. 71, the Company would be required to apply the provisions of FASB Statement No. 101, "Regulated Enterprises – Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71." In the Company's opinion, its regulated operations will be subject to SFAS No. 71 for the foreseeable future.

Utility Revenue Recognition - Regulated utility revenues are based on rates and charges approved by federal and state regulatory commissions. Revenues related to the sale of electric and gas service are recorded when service is rendered or energy is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on estimated customer usage by class and applicable customer rates.

Allowance for Doubtful Accounts - The Company recognizes a Provision for Doubtful Accounts each month. The amount of the monthly Provision is based upon the Company's experience in collecting electric and gas utility service accounts receivable in prior years. Account write-offs, net of recoveries, are processed monthly. At the end of each month, an analysis of the delinquent receivables is performed and the adequacy of the Allowance for Doubtful Accounts is reviewed. The analysis takes into account an assumption about the cash recovery of delinquent receivables and also uses calculations related to customers who have chosen payment plans to resolve their arrears. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company is authorized by regulators to recover the supply-related portion of its written-off accounts from customers through periodically reconciling rate mechanisms. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis. Also, the Company has experienced periods when state regulators have extended the periods during which certain standard credit and collection activities of utility companies are suspended. In periods when account write-offs exceed estimated levels, the Company adjusts the Provision for Doubtful Accounts to maintain an adequate Allowance for Doubtful Accounts balance.

Retirement Benefit Obligations - The Company sponsors the following retirement benefit plans to provide certain pension and postretirement benefits for its retirees and current employees: the Unitil Corporation Retirement Plan (Pension Plan), a defined benefit pension plan covering substantially all of its employees; the Unitil Retiree Health and Welfare Benefits Plan (PBOP Plan) which provides health care and life insurance benefits to retirees; and the Unitil Corporation Supplemental Executive Retirement Plan (SERP), an unfunded retirement plan, with participation limited to executives selected by the Board of Directors.

The Company accounts for its pension and postretirement benefits in accordance with FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", (SFAS No. 158), SFAS No.

87, “Employers’ Accounting for Pensions” and SFAS No. 106, “Employers’ Accounting for Postretirement Benefits other than Pensions”. In applying these accounting policies, the Company has made critical estimates related to actuarial assumptions, including assumptions of expected returns on plan assets, future compensation, health care cost trends, and appropriate discount rates. For each of these plans, the development of the benefit obligation, fair value of plan assets, funded status and net periodic benefit cost is based on these significant assumptions. SFAS No. 158 requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized corresponding Regulatory Assets, to recognize the future collection of these obligations in electric and gas retail rates. (See Notes 1 and 8).

The Company’s reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status and net periodic benefit costs could have a material impact on the Company's consolidated financial statements (See Note 8.)

Income Taxes – Provisions for income taxes are calculated in each of the jurisdictions in which the Company operates for each period for which a statement of income is presented. This process involves estimating the Company’s current tax liabilities as well as assessing temporary and permanent differences resulting from the timing of the deductions of expenses and recognition of taxable income for tax and book accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Company’s consolidated balance sheets. The Company accounts for income tax assets, liabilities and expenses in accordance with FASB Statement No. 109, “Accounting for Income Taxes” (SFAS No. 109) and under FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48), an interpretation of FAS 109.

Depreciation - Depreciation expense is calculated on a group straight-line basis based on the useful lives of assets and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company’s fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company's consolidated financial statements.

Commitments and Contingencies - The Company’s accounting policy is to record and/or disclose commitments and contingencies in accordance with SFAS No. 5. SFAS No. 5 applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2007, the Company is not aware of any material commitments or contingencies other than those disclosed in the Significant Contractual Obligations table in the Contractual Obligations section above and the Commitments and Contingencies footnote to the Company’s consolidated financial statements below.

Refer to “Recently Issued Accounting Pronouncements’ in Note 1 of the Notes of Consolidated Financial Statements for information regarding recently issued accounting standards.

For further information regarding these types of activities, see Note 1, "Summary of Significant Accounting Policies," Note 7, "Income Taxes," Note 4, "Energy Supply," Note 8, "Benefit Plans," and Note 5, "Commitment and Contingencies," to the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Please also refer to Item 1A. “Risk Factors”.

INTEREST RATE RISK

As discussed above, Unitil meets its external financing needs by issuing short-term and long-term debt. The majority of debt outstanding represents long-term notes bearing fixed rates of interest. Changes in market interest rates do not affect interest expense resulting from these outstanding long-term debt securities. However, the Company periodically repays its short-term debt borrowings through the issuance of new long-term debt securities. Changes in market interest rates may affect the interest rate and corresponding interest expense on any new issuances of long-term debt securities. In addition, short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease interest expense in future periods. For example, if the average amount of short-term debt outstanding of $25 million for the period of one year, a change in interest rates of 1% would result in a change in annual interest expense of approximately $250,000. The average interest rate on short-term borrowings was 5.6%, 5.5% and 3.8% during 2007, 2006 and 2005, respectively.

MARKET RISK

Although Unitil's utility operating companies are subject to commodity price risk as part of their traditional operations, the current regulatory framework within which these companies operate allows for full collection of electric power and natural gas supply costs in rates on a pass-through basis. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, as discussed above and below in Regulatory Matters, the Company has divested its commodity-related contracts and therefore, further reduced its exposure to commodity risk.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders of Unitil Corporation:

We have audited the accompanying consolidated balance sheets and statements of capitalization of Unitil Corporation and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of earnings, cash flows and changes in common stock equity for each of the years ended December 31, 2007, 2006 and 2005. We also have audited Unitil Corporation and subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unitil Corporation and subsidiaries as of December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Unitil Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Vitale, Caturano & Co. Ltd.

Boston, Massachusetts
February 8, 2008

CONSOLIDATED STATEMENTS OF EARNINGS

(Millions, except common shares and per share data)

Year Ended December 31,	**2007**	2006	2005
Operating Revenues:			
Electric	**$ 225.0**	$ 225.2	$ 197.3
Gas	**34.2**	33.3	32.8
Other	**3.7**	2.4	2.0
Total Operating Revenues	**262.9**	260.9	232.1
Operating Expenses:			
Purchased Electricity	**165.4**	167.3	138.1
Purchased Gas	**21.3**	22.4	21.2
Operation and Maintenance	**26.2**	25.7	24.5
Conservation & Load Management	**3.6**	3.8	4.1
Depreciation and Amortization	**17.8**	16.1	19.1
Provisions for Taxes:			
Local Property and Other	**5.6**	5.5	5.3
Federal and State Income	**4.5**	4.3	4.3
Total Operating Expenses	**244.4**	245.1	216.6
Operating Income	**18.5**	15.8	15.5
Other Non-Operating Expenses	**0.2**	---	0.1
Income Before Interest Expense	**18.3**	15.8	15.4
Interest Expense, net	**9.6**	7.8	6.8
Net Income	**8.7**	8.0	8.6
Less Dividends on Preferred Stock	**0.1**	0.1	0.2
Earnings Applicable to Common Shareholders	**$ 8.6**	$ 7.9	$ 8.4
Average Common Shares Outstanding (000's) - Basic	**5,659**	5,597	5,551
Average Common Shares Outstanding (000's) - Diluted	**5,672**	5,612	5,568
Earnings per Common Share – Basic and Diluted	**$ 1.52**	$ 1.41	$ 1.51

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

CONSOLIDATED BALANCE SHEETS *(Millions)*

ASSETS

December 31,	**2007**	2006
Utility Plant:		
Electric	**$ 266.2**	$ 250.3
Gas	**67.8**	63.4
Common	**26.2**	25.3
Construction Work in Progress	**20.3**	14.0
Utility Plant	**380.5**	353.0
Less: Accumulated Depreciation	**131.6**	121.2
Net Utility Plant	**248.9**	231.8
Current Assets:		
Cash	**4.6**	4.6
Accounts Receivable – (Net of Allowance for Doubtful Accounts of $1.3 and $1.7)	**24.9**	22.5
Accrued Revenue	**12.7**	13.8
Refundable Taxes	**0.7**	---
Material and Supplies	**4.5**	4.5
Prepayments and Other	**1.5**	1.3
Total Current Assets	**48.9**	46.7
Noncurrent Assets:		
Regulatory Assets	**170.5**	198.8
Debt Issuance Costs, net	**2.8**	2.6
Other Noncurrent Assets	**3.5**	3.5
Total Noncurrent Assets	**176.8**	204.9
TOTAL	**$ 474.6**	$ 483.4

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

CONSOLIDATED BALANCE SHEETS (cont.) *(Millions)*

CAPITALIZATION AND LIABILITIES

December 31,	**2007**	2006
Capitalization:		
Common Stock Equity	**$ 100.4**	$ 97.8
Preferred Stock, Non-Redeemable, Non-Cumulative	**0.2**	0.2
Preferred Stock, Redeemable, Cumulative	**1.9**	1.9
Long-Term Debt, Less Current Portion	**159.6**	140.0
Total Capitalization	**262.1**	239.9
Current Liabilities:		
Long-Term Debt, Current Portion	**0.4**	0.3
Capitalized Leases, Current Portion	**0.3**	0.2
Short-Term Debt	**18.8**	26.0
Accounts Payable	**17.6**	19.8
Taxes Payable	**---**	0.9
Interest and Dividends Payable	**1.9**	1.6
Other Current Liabilities	**5.1**	4.6
Total Current Liabilities	**44.1**	53.4
Deferred Income Taxes	**33.4**	34.5
Noncurrent Liabilities:		
Power Supply Contract Obligations	**72.7**	92.6
Retirement Benefit Obligations	**48.2**	49.7
Environmental Obligations	**12.0**	12.0
Capitalized Leases, Less Current Portion	**0.5**	0.2
Other Noncurrent Liabilities	**1.6**	1.1
Total Noncurrent Liabilities	**135.0**	155.6
TOTAL	**$ 474.6**	$ 483.4

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

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(Millions, except number of shares and par value)

December 31,		**2007**		2006
Common Stock Equity				
Common Stock, No Par Value (Authorized (000's) - 8,000 shares; Outstanding – 5,740 and 5,650 shares)	**$**	**64.5**	$	62.2
Stock Compensation Plans		**0.8**		1.3
Retained Earnings		**35.1**		34.3
Total Common Stock Equity		**100.4**		97.8
Preferred Stock				
UES Preferred Stock, Non-Redeemable, Non-Cumulative:				
6.00% Series, $100 Par Value		**0.2**		0.2
FG&E Preferred Stock, Redeemable, Cumulative:				
5.125% Series, $100 Par Value		**0.9**		0.9
8.00% Series, $100 Par Value		**1.0**		1.0
Total Preferred Stock		**2.1**		2.1
Long-Term Debt				
Unitil Corporation Senior Notes:				
6.33% Notes, Due May 1, 2022		**20.0**		---
UES First Mortgage Bonds:				
8.49% Series, Due October 14, 2024		**15.0**		15.0
6.96% Series, Due September 1, 2028		**20.0**		20.0
8.00% Series, Due May 1, 2031		**15.0**		15.0
6.32% Series, Due September 15, 2036		**15.0**		15.0
FG&E Long-Term Notes:				
6.75% Notes, Due November 30, 2023		**19.0**		19.0
7.37% Notes, Due January 15, 2029		**12.0**		12.0
7.98% Notes, Due June 1, 2031		**14.0**		14.0
6.79% Notes, Due October 15, 2025		**10.0**		10.0
5.90% Notes, Due December 15, 2030		**15.0**		15.0
Unitil Realty Corp. Senior Secured Notes:				
8.00% Notes, Due August 1, 2017		**5.0**		5.3
Total Long-Term Debt		**160.0**		140.3
Less: Current Portion		**0.4**		0.3
Total Long-Term Debt, Less Current Portion		**159.6**		140.0
Total Capitalization	**$**	**262.1**	$	239.9

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

CONSOLIDATED STATEMENTS OF CASH FLOWS *(Millions)*

Year Ended December 31,	**2007**	2006	2005
Operating Activities:			
Net Income	**$ 8.7**	$ 8.0	$ 8.6
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:			
Depreciation and Amortization	**17.8**	16.1	19.1
Deferred Taxes	**(0.9)**	0.5	(0.2)
Changes in Current Assets and Liabilities:			
Accounts Receivable	**(2.4)**	1.1	(5.5)
Accrued Revenue	**1.1**	(4.9)	0.9
Accounts Payable	**(2.2)**	(0.8)	4.4
Taxes Payable / (Refundable)	**(1.6)**	0.9	0.6
All Other Current Assets and Liabilities	**0.5**	(0.1)	1.4
Deferred Restructuring Charges	**3.5**	(2.0)	(4.2)
Other, net	**2.3**	1.6	(1.0)
Cash Provided by Operating Activities	**26.8**	20.4	24.1
Investing Activities:			
Property, Plant and Equipment Additions	**(32.5)**	(33.6)	(24.4)
Cash (Used In) Investing Activities	**(32.5)**	(33.6)	(24.4)
Financing Activities:			
Proceeds from (Repayment of) Short-Term Debt	**(7.2)**	7.3	(7.0)
Proceeds from Issuance of Long-Term Debt	**20.0**	15.0	15.0
Repayment of Long-Term Debt	**(0.3)**	(0.3)	(0.3)
Dividends Paid	**(7.9)**	(7.9)	(7.8)
Issuance of Common Stock	**1.5**	1.0	1.0
Retirement of Preferred Stock	**---**	(0.2)	---
Other, net	**(0.4)**	(0.3)	(0.4)
Cash Provided by Financing Activities	**5.7**	14.6	0.5
Net Increase (Decrease) in Cash	**---**	1.4	0.2
Cash at Beginning of Year	**4.6**	3.2	3.0
Cash at End of Year	**$ 4.6**	$ 4.6	$ 3.2
Supplemental Information:			
Interest Paid	**$ 12.2**	$ 10.7	$ 9.5
Income Taxes Paid	**$ 5.3**	$ 3.1	$ 4.5

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

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

(Millions, except number of shares)

	Common Shares	Stock Compensation Plans	Retained Earnings	Total
Balance at January 1, 2005	$ 59.9	$ 1.0	$ 33.4	$ 94.3
Net Income for 2005			8.6	8.6
Dividends on Preferred Shares			(0.2)	(0.2)
Dividends on Common Shares			(7.7)	(7.7)
Stock Compensation Plans	0.1	0.2		0.3
Issuance of 38,003 Common Shares	1.0			1.0
Balance at December 31, 2005	61.0	1.2	34.1	96.3
Net Income for 2006			8.0	8.0
Dividends on Preferred Shares			(0.1)	(0.1)
Dividends on Common Shares			(7.7)	(7.7)
Stock Compensation Plans	0.2	0.1		0.3
Issuance of 40,365 Common Shares	1.0			1.0
Balance at December 31, 2006	62.2	1.3	34.3	97.8
Net Income for 2007			8.7	**8.7**
Dividends on Preferred Shares			(0.1)	**(0.1)**
Dividends on Common Shares			(7.8)	**(7.8)**
Stock Compensation Plans	0.3			**0.3**
Exercised Stock Options – 42,437 Common Shares	1.0	(0.5)		**0.5**
Issuance of 38,303 Common Shares	1.0			**1.0**
Balance at December 31, 2007	$ **64.5**	**$ 0.8**	**$ 35.1**	$ **100.4**

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

Note 1: Summary of Significant Accounting Policies

Nature of Operations - Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005. The following companies are wholly-owned subsidiaries of Unitil: Unitil Energy Systems, Inc. (UES), Fitchburg Gas and Electric Light Company (FG&E), Unitil Power Corp. (Unitil Power), Unitil Realty Corp. (Unitil Realty), Unitil Service Corp. (Unitil Service) and its non-regulated business unit Unitil Resources, Inc. (Unitil Resources). Usource, Inc. and Usource L.L.C. are subsidiaries of Unitil Resources.

Unitil's principal business is the retail distribution of electricity in the southeastern seacoast and capital city areas of New Hampshire and the retail distribution of both electricity and natural gas in the greater Fitchburg area of north central Massachusetts, through the Company's two wholly-owned subsidiaries, UES and FG&E, collectively referred to as the retail distribution utilities.

A third utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for UES. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of UES on May 1, 2003 and divested of its long-term power supply contracts through the sale of the entitlements to the electricity associated with various electric power supply contracts it had acquired to serve UES' customers.

Unitil also has three other wholly-owned subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company's corporate office in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Resources is the Company's wholly-owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly-owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to large commercial and industrial customers in the northeastern United States.

Basis of Presentation

Principles of Consolidation - In accordance with current accounting pronouncements, the Company's consolidated financial statements include the accounts of Unitil and all of its wholly-owned subsidiaries and all intercompany transactions are eliminated in consolidation.

Regulatory Accounting - The Company's principal business is the distribution of electricity and natural gas by the Company-owned retail distribution utilities: UES and FG&E. Both UES and FG&E are subject to regulation by the FERC and FG&E is regulated by the Massachusetts Department of Public Utilities (MDPU) and UES is regulated by the New Hampshire Public Utilities Commission (NHPUC). Accordingly, the Company uses the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). In accordance with SFAS No. 71, the Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered in future electric and gas retail rates.

SFAS No. 71 specifies the economic effects that result from the cause and effect relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or "regulatory assets" under SFAS No. 71. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or "regulatory liabilities" under SFAS No. 71.

The Company's principal regulatory assets and liabilities are detailed on the Company's Consolidated Balance Sheet and a summary of the Company's Regulatory Assets is provided below. Generally, the Company is currently receiving or being credited with a return on primarily all of its regulatory assets for which a cash outflow has been made. Generally, the Company is currently paying or being charged with a return on all of its regulatory liabilities for which a cash inflow has been received. The Company's regulatory assets and liabilities will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

The application of SFAS No. 71 results in the deferral of costs as regulatory assets that, in some cases, have not yet been approved for recovery by the applicable regulatory commission. The Company must conclude that any costs deferred as regulatory assets are probable of future recovery in rates. However, regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company's consolidated financial statements. The Company believes it is probable that its regulated utility companies will recover their investments in long-lived assets, including regulatory assets. The Company also has commitments under long-term contracts for the purchase of electricity and natural gas from various suppliers. The annual costs under these contracts are included in Purchased Electricity and Purchased Gas in the Consolidated Statements of Earnings and these costs are recoverable in current and future rates under various orders issued by the FERC, MDPU and NHPUC.

	December 31,	
Regulatory Assets consist of the following (millions)	**2007**	2006
Power Supply Buyout Obligations	**$ 72.7**	$ 92.6
Deferred Restructuring Costs	**30.5**	31.0
Generation-related Assets	**1.6**	2.5
Subtotal – Restructuring Related Items	**104.8**	126.1
Retirement Benefit Obligations	**35.1**	37.1
Income Taxes	**14.6**	19.1
Environmental Obligations	**13.1**	13.0
Other	**2.9**	3.5
Total Regulatory Assets	**$ 170.5**	$ 198.8

Massachusetts and New Hampshire have both passed utility industry restructuring legislation and the Company has filed and implemented its restructuring plans in both states. The Company is allowed to recover certain types of costs through ongoing assessments to be included in future retail rates. Based on the recovery mechanism that allows recovery of all of its stranded costs and deferred costs related to restructuring, the Company has recorded regulatory assets that it expects to fully recover in future periods.

The Company expects to continue to meet the criteria for the application of SFAS No. 71 for the distribution portion of its assets and operations for the foreseeable future. If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met.

Cash – Cash includes all cash and cash equivalents to which the Company has legal title. Cash equivalents include short-term investments with original maturities of three months or less and interest bearing deposits. Financial instruments that subject the Company to credit risk concentrations consist of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are held at financial institutions and at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash. Under the Independent System Operator – New England (ISO-NE) Financial Assurance Policy (Policy), Unitil's affiliates UES, FG&E and Unitil Power are required to provide assurance of their ability to satisfy their obligations to ISO-NE. Under this Policy, Unitil's affiliates provide cash deposits covering approximately 2-1/2 months of outstanding obligations. On December 31, 2007 and 2006, the Unitil affiliates had deposited $2.5 million and $2.0 million, respectively to satisfy their ISO-NE obligations.

Goodwill and Intangible Assets – The Company does not have any goodwill recorded on its balance sheet as of December 31, 2007. There are no significant intangible assets recorded by the Company at December 31, 2007. Therefore, the Company is not currently involved in making estimates or seeking valuations of these items.

Off-Balance Sheet Arrangements – As of December 31, 2007, the Company does not have any significant arrangements that would be classified as Off-Balance Sheet Arrangements. In the ordinary course of business, the Company does contract for certain office equipment, vehicles and other equipment under operating leases and, in the Company's opinion, the amount of these transactions is not material.

Investments and Trading Activities – During the year, the Company does invest in U.S. Treasuries and short-term investments which traditionally have very little fluctuation in fair value. The Company does not engage in investing or trading activities involving non-exchange traded contracts or other instruments where a periodic analysis of fair value would be required for book accounting purposes.

Derivatives – The Company enters into wholesale electric and gas energy supply contracts to serve its customers. The Company's policy is to review each contract and determine whether they meet the criteria for classification as derivatives under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), FASB Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", an amendment of SFAS No. 133 (SFAS No. 138) and / or FASB Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). As of December 31, 2007, the Company determined that none of its wholesale electric and gas energy supply contracts met the criteria for classification as a derivative instrument. Additionally, the Company may enter into interest rate hedging transactions with respect to existing indebtedness and anticipated debt offerings. As of December 31, 2007, the Company has not entered into any such transactions. However, should the Company enter into any such transactions in the future, its policy will be to review each transaction and determine whether it meets the criteria for classification as derivatives under SFAS No. 133, SFAS No. 138 and / or SFAS No. 149.

Utility Revenue Recognition - Regulated utility revenues are based on rates and charges approved by federal and state regulatory commissions. Revenues related to the sale of electric and gas service are recorded when service is rendered or energy is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on estimated customer usage by class and applicable customer rates.

Revenue Recognition - Non-regulated Operations - Usource, Unitil's competitive energy brokering subsidiary, records energy brokering revenues based upon the estimated amount of electricity and gas delivered to customers through the end of the accounting period.

Allowance for Doubtful Accounts - The Company recognizes a Provision for Doubtful Accounts each month. The amount of the monthly Provision is based upon the Company's experience in collecting electric and gas utility service accounts receivable in prior years. Account write-offs, net of recoveries, are processed monthly. At the end of each month, an analysis of the delinquent receivables is performed and the adequacy of the Allowance for Doubtful Accounts is reviewed. The analysis takes into account an assumption about the cash recovery of delinquent receivables and also uses calculations related to customers who have chosen payment plans to resolve their arrears. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company is authorized by regulators to recover the supply-related portion of its written-off accounts from customers through periodically reconciling rate mechanisms. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis. Also, the Company has experienced periods when state regulators have extended the periods during which certain standard credit and collection activities of utility companies are suspended. In periods when account write-offs exceed estimated levels, the Company adjusts the Provision for Doubtful Accounts to maintain an adequate Allowance for Doubtful Accounts balance.

Retirement Benefit Obligations - The Company sponsors the following retirement benefit plans to provide certain pension and postretirement benefits for its retirees and current employees: the Unitil Corporation Retirement Plan (Pension Plan), a defined benefit pension plan covering substantially all of its employees; the Unitil Retiree Health and Welfare Benefits Plan (PBOP Plan) which provides health care and life insurance benefits to retirees; and the Unitil Corporation Supplemental Executive Retirement Plan (SERP), an unfunded retirement plan, with participation limited to executives selected by the Board of Directors.

The Company accounts for its pension and postretirement benefits in accordance with FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", (SFAS No. 158), FASB Statement No. 87, "Employers' Accounting for Pensions", (SFAS No. 87) and FASB Statement No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions", (SFAS No. 106). The Company has recognized Regulatory Assets, to recognize the future collection of these obligations in electric and gas retail rates (See Note 8).

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and requires disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's policy is to record those estimates in accordance with the American Institute of Certified Public Accountants Statement of Position 94-6, "Disclosure of Certain Significant Risks and Uncertainties."

Commitments and Contingencies - The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with FASB Statement No. 5, "Accounting for Contingencies" (SFAS No. 5). SFAS No. 5 applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2007, the Company is not aware of any material commitments or contingencies other than those disclosed in the Commitments and Contingencies footnote to the Company's consolidated financial statements below (See Note 5).

Utility Plant - The cost of additions to Utility Plant and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The average interest rates applied to AFUDC were 5.73%, 4.92% and 2.33% in 2007, 2006 and 2005, respectively. The costs of current repairs and minor replacements are charged to appropriate operating expense accounts. The original cost of utility plant retired or otherwise disposed of and the cost of removal, less salvage, are charged to the accumulated provision for depreciation. The Company does not account separately for negative salvage, or cost of retirement obligations as defined in FASB Statement No. 143, "Accounting for Asset Retirement Obligations" and FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations." The Company includes in its mass asset depreciation rates, which are periodically reviewed as part of its ratemaking proceedings, depreciation amounts to provide for future negative salvage value. The Company is not mandated by any state or federal regulations or other commitments to retire assets other than those currently included in it mass asset depreciation base. At December 31, 2007 and December 31, 2006, the Company estimates that the negative salvage value of future retirements recorded on the balance sheet in Accumulated Depreciation is $16.2 million and $14.9 million, respectively.

Depreciation and Amortization – Depreciation expense is calculated on a group straight-line basis based on the useful lives of assets, and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company's fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company's consolidated financial statements.

Depreciation provisions for Unitil's utility operating subsidiaries are determined on a group straight-line basis. Provisions for depreciation were equivalent to the following composite rates, based on the average depreciable property balances at the beginning and end of each year: 2007 – 4.29%, 2006 – 4.40% and 2005 – 4.69%.

Amortization provisions include the recovery, in 2005, of a portion of FG&E's former investment in Seabrook Station, a nuclear generating unit, in rates to its customers through the Seabrook Amortization Surcharge as ordered by the MDPU. FG&E's asset related to Seabrook Station became fully-amortized in the third quarter of 2005. In addition, FG&E is amortizing the balance of its unrecovered electric generating related assets, which are recorded as Regulatory Assets, in accordance with its electric restructuring plan approved by the MDPU (See Note 5).

Environmental Matters - The Company's past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. In the past three years, the Company has performed work on two environmental remediation projects, the Sawyer Passway MGP Site and the Former Electric Generating Station. The Company has or will recover substantially all of the cost of the work performed to date from customers or from its insurance carriers. The Company believes it is in compliance with all applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2007, there are no material losses that would require additional liability reserves to be recorded other than those disclosed in Note 5, Commitments and Contingencies. Changes in future environmental compliance regulations or in future cost estimates of environmental remediation costs could have a material effect on the Company's financial position if those amounts are not recoverable in regulatory rate mechanisms.

Stock-based Employee Compensation - Unitil accounts for stock-based employee compensation currently using the fair value-based method (See Note 2).

Income Taxes – Provisions for income taxes are calculated in each of the jurisdictions in which the Company operates for each period for which a statement of income is presented. This process involves estimating the Company's current tax liabilities as well as assessing temporary and permanent differences resulting from the timing of the deductions of expenses and recognition of taxable income for tax and book accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheets. The Company accounts for income tax assets, liabilities and expenses in accordance with FASB Statement No. 109, "Accounting for Income Taxes" (SFAS No. 109) and under FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), an interpretation of FAS 109.

Dividends – The Company is currently paying a dividend at an annual rate of $1.38 per common share. The Company's dividend policy is reviewed periodically by the Board of Directors. The amount and timing of all dividend payments is subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial conditions and other factors.

Other Recently Issued Pronouncements – In December 2007, the FASB issued FASB Statement No. 141 (Revised 2007), "Business Combinations" (SFAS No. 141R), effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS No. 141R establishes principles and requirements on how an acquirer recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, noncontrolling interests in the acquiree, goodwill or gain from a bargain purchase and accounting for transaction costs. Additionally, SFAS No. 141R determines what information must be disclosed to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company will adopt SFAS No. 141R upon its effective date as appropriate for any future business combinations.

In February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159), effective for fiscal years beginning after November 15, 2007. SFAS No. 159 includes an amendment of FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value and requires unrealized gains and losses on items for which the fair value option has been elected to be reported in earnings. The Company adopted SFAS No. 159 which had no impact on the Company's Consolidated Financial Position.

In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements", (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Certain requirements of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The effective date for other requirements of SFAS No. 157 has been deferred for one year by the FASB. The Company adopted the sections of SFAS No. 157 which are effective for fiscal years beginning after November 15, 2007 and there was no impact on the Company's Consolidated Financial Statements. The Company does not expect that the adoption of the delayed sections of SFAS No. 157 will have an impact on the Company's Consolidated Financial Statements.

In February 2006, the FASB issued FASB Statement No. 155, "Accounting for Certain Hybrid Financial Instruments", (SFAS No. 155), which amends SFAS No.133 and FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", (SFAS No. 140), effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133. The Company's adoption of SFAS No. 155 did not have an impact on the Company's Consolidated Financial Statements.

Note 2: Equity

The Company has both common and preferred stock outstanding. Details regarding these forms of capitalization follow:

Common Stock

Dividend Reinvestment and Stock Purchase Plan - During 2007, the Company sold 38,303 shares of its Common Stock, at an average price of $27.44 per share, in connection with its Dividend Reinvestment and Stock Purchase Plan (DRP) and its 401(k) plans. Net proceeds of $1.0 million were used to reduce short-term borrowings. The DRP provides participants in the plan a method for investing cash dividends on the Company's Common Stock and cash payments in additional shares of the Company's Common Stock. During 2006 and 2005, the Company raised $1.0 million and $1.0 million, respectively, of additional common equity through the issuance of 40,365 and 38,003 shares, respectively, of its Common Stock in connection with its DRP and 401(k) plans.

Shares Repurchased, Cancelled and Retired - During 2007, 2006 and 2005, Unitil did not repurchase, cancel or retire any of its common stock.

Stock-Based Compensation Plans - Unitil maintains a Restricted Stock plan and two stock option plans, which provided for the granting of options to key employees. The Company has adopted FASB Statement No. 123(R), "Accounting for Stock Based Compensation," and recognizes compensation costs at fair value at the date of grant. Details of the plans are as follows:

Restricted Stock Plan - On April 17, 2003, the Company's shareholders ratified and approved a Restricted Stock Plan (the Plan) which had been approved by the Company's Board of Directors at its January 16, 2003 meeting. Participants in the Plan are selected by the Compensation Committee of the Board of Directors from the eligible Participants to receive an annual award of restricted shares of Company Common Stock. The Compensation Committee has the power to determine the sizes of awards; determine the terms and conditions of awards in a manner consistent with the Plan; construe and interpret the Plan and any agreement or instrument entered into under the Plan as they apply to participants; establish, amend, or waive rules and regulations for the Plan's administration as they apply to participants; and, subject to the provisions of the Plan, amend the terms and conditions of any outstanding award to the extent such terms and conditions are within the discretion of the Compensation Committee as provided for in the Plan. Awards fully vest over a period of four years at a rate of 25% each year.

During the vesting period, dividends on restricted shares underlying the award may be credited to the participant's account. Awards may be grossed up to offset the participant's tax obligations in connection with the award. Prior to the end of the vesting period, the restricted shares are subject to forfeiture if the participant ceases to be employed by the Company other than due to the participant's death. The maximum number of shares of Restricted Stock available for awards to participants under the Plan is 177,500. The maximum aggregate number of shares of Restricted Stock that may be awarded in any one calendar year to any one participant is 20,000. In the event of any change in capitalization of the Company, the Compensation Committee is authorized to make proportionate adjustments to prevent dilution or enlargement of rights, including, without limitation, an adjustment in the maximum number and kinds of shares available for awards and in the annual award limit.

Restricted shares issued for 2005 – 2007 in conjunction with the Plan are presented in the following table:

Issuance Date	Shares	Aggregate Market Value (millions)
3/8/05	10,900	$ 0.3
2/16/06	14,375	$ 0.4
2/9/07	9,020	$ 0.2

The compensation expense associated with the issuance of shares under the Plan is being accrued over the vesting period and was $0.4 million, $0.4 million and $0.3 million in 2007, 2006 and 2005, respectively, including amounts for tax gross-up. At December 31, 2007, there was approximately $0.7 million of total unrecognized compensation cost related to non-vested shares under the Plan which is expected to be recognized over a weighted average of approximately 2.2 years as the shares vest. There were 18,511 and 21,215 non-vested shares under the Plan as of December 31, 2007 and 2006, respectively. The weighted average grant date fair value of these shares was $25.95 and $26.34, respectively. There were no cancellations or forfeitures under the Plan during 2007. As shares vest, the Company's equity associated with those shares moves from "Stock

Compensation Plans" to "Common Shares" in the presentation of the Consolidated Changes in Common Stock Equity.

Unitil Corporation Key Employee Stock Option Plan – In the third quarter of 2007, the Company issued and sold 42,437 shares of its Common Stock, at a final average price of $10.70 per share, in connection with the exercise of stock options under the Unitil Corporation Key Employee Stock Option Plan (KESOP) which expired in 2007. As of December 31, 2007, there are no options remaining under the KESOP. Net proceeds of $0.5 million were used by the Company to reduce short-term borrowings.

The total compensation expenses recorded by the Company with respect to this plan were $57,000, $54,000 and $51,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

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

	2007	2006	2005
Beginning Options Outstanding and Exercisable	**25,000**	25,000	25,000
Dividend Equivalents Earned – Prior Years	**15,388**	13,202	11,321
Dividend Equivalents Earned – Current Year	**2,049**	2,186	1,881
Options Exercised	**42,437**	----	----
Ending Options Outstanding and Exercisable	**---**	40,388	38,202
Weighted Average Exercise Price per Share	**$10.70**	$11.25	$11.89
Range of Option Exercise Price per Share	**$12.11-$18.28**	$12.11-$18.28	$12.11-$18.28
Weighted Average Remaining Contractual Life	**n/a**	0.9 years	1.9 years

Unitil Corporation 1998 Stock Option Plan - The "Unitil Corporation 1998 Stock Option Plan" became effective on December 11, 1998. The number of shares granted under this plan, as well as the terms and conditions of each grant, are determined by the Compensation Committee of the Board of Directors, subject to plan limitations. All options granted under this plan vest over a three-year period from the date of the grant, with 25% vesting on the first anniversary of the grant, 25% vesting on the second anniversary, and 50% vesting on the third anniversary. Under the terms of this plan, key employees may be granted options to purchase the Company's Common Stock at no less than 100% of the market price on the date the option is granted. All options must be exercised no later than 10 years after the date on which they were granted. This plan was terminated on January 16, 2003. There was no compensation expense associated with this plan in 2007, 2006 and 2005. The plan will remain in effect solely for the purposes of the continued administration of all options currently outstanding under the plan. No further grants of options will be made under this plan.

There were 107,000 vested and exercisable options outstanding, with an weighted average exercise price of $27.13, at December 31, 2005, 2006 and 2007. There were no options granted or forfeited during those years.

The following summarizes certain data for the options outstanding at December 31, 2007:

Range of Exercise Prices	Options Vested, Exercisable and Outstanding	Weighted Average Exercise Price	Remaining Contractual Life
$20.00-$24.99	34,500	$23.38	1.2 years
$25.00-$29.99	37,500	$25.88	3.1 years
$30.00-$34.99	35,000	$32.17	2.1 years
	107,000		

Preferred Stock

Unitil's two retail distribution companies, UES and FG&E, have preferred stock outstanding. At December 31, 2007, UES has a 6.00% Series Non-Redeemable, Non-Cumulative Preferred Stock series outstanding and FG&E has two series of Redeemable, Cumulative Preferred Stock outstanding, the 5.125% Series and the 8.00% Series.

FG&E is required to offer to redeem annually a given number of shares of each series of Redeemable, Cumulative Preferred Stock and to purchase such shares that shall have been tendered by holders of the respective stock. In addition, FG&E may opt to redeem the Redeemable, Cumulative Preferred Stock at a given redemption price, plus accrued dividends.

The aggregate purchases of Redeemable, Cumulative Preferred Stock during 2007, 2006 and 2005 related to the annual redemption offer were $21,700, $22,000 and $11,400, respectively. The aggregate amount of sinking fund requirements of the Redeemable, Cumulative Preferred Stock for each of the five years following 2007 is $117,000 per year.

On February 10, 2006, FG&E repurchased, canceled and retired 2,213 shares of its 8.00% series of Redeemable, Cumulative Preferred Stock at an aggregate par value of $221,300. FG&E used operating cash to effect this transaction.

Earnings Per Share

The following table reconciles basic and diluted earnings per share.

(Millions except shares and per share data)	**2007**	2006	2005
Earnings Available to Common Shareholders	**$ 8.6**	$ 7.9	$ 8.4
Weighted Average Common Shares Outstanding – Basic (000's)	**5,659**	5,597	5,551
Plus: Diluted Effect of Incremental Shares (000's)	**13**	15	17
Weighted Average Common Shares Outstanding – Diluted (000's)	**5,672**	5,612	5,568
Earnings per Share – Basic and Diluted	**$ 1.52**	$ 1.41	$ 1.51

Weighted average options to purchase 35,000, 72,500 and 72,500 shares of Common Stock were outstanding during 2007, 2006 and 2005, respectively, but were not included in the computation of Weighted Average Common Shares Outstanding for purposes of computing diluted earnings per share, because the effect would have been antidilutive. Additionally, 2,030, 24,256 and 12,841 weighted average non-vested restricted shares for 2007, 2006 and 2005, respectively, were not included in the above computation because the effect would have been antidilutive.

Note 3: Long-Term Debt, Credit Arrangements, Leases and Guarantees

The Company funds a portion of its operations through the issuance of long-term debt and through short-term borrowing arrangements. The Company's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their machinery, vehicles and office equipment. Details regarding long-term debt, short-term debt and leases follow:

Long-Term Debt and Interest Expense

Long-Term Debt Structure and Covenants - The agreements under which the long-term debt of Unitil and its retail distribution utilities, UES and FG&E, were issued contain various covenants and restrictions. These agreements do not contain any covenants or restrictions pertaining to the maintenance of financial ratios or the issuance of short-term debt. These agreements do contain covenants relating to, among other things, the issuance of additional long-term debt, cross-default provisions and business combinations, as described below.

Unitil utilizes a debenture structure of long-term debt. The long-term debt of Unitil is issued under Unsecured Promissory Notes with negative pledge provisions. The long-term debt's negative pledge provisions contain restrictions which, among other things, limit the incursion of additional long-term debt. Accordingly, in order for Unitil to issue new long-term debt, the covenants of the existing long-term agreement(s), must be satisfied, including that Unitil have total funded indebtedness less than 70% of total capitalization, and earnings available for interest equal to at least two times the interest charges for funded indebtedness. Each future senior long-term debt issuance of Unitil will rank pari passu with all other senior unsecured long-term debt issuances. The Unitil agreement requires that if Unitil defaults on any other future long-term debt agreement(s), it would constitute a default under its present long-term debt agreement. Furthermore, the default provisions are triggered by the defaults of its Principal Utility Subsidiaries or certain other actions against subsidiary companies in the Unitil System.

UES utilizes a First Mortgage Bond (FMB) structure of long-term debt. Substantially all the property of UES is subject to liens of indenture under which FMB's have been issued. In order to issue new FMB securities, the customary covenants of the existing UES Indenture Agreement must be met, including that UES have sufficient available net bondable plant to issue the securities, and projected earnings available for interest charges equal to at least two times the annual interest requirement. The UES agreements further require that if UES defaults on any UES FMB securities, it would constitute a default for all UES FMB securities. The UES default provisions are not triggered by the actions or defaults of Unitil or its other subsidiaries.

FG&E utilizes a debenture structure of long-term debt. All of the long-term debt of FG&E is issued under Unsecured Promissory Notes with negative pledge provisions. Each issue of FG&E's long-term debt ranks pari passu with its other senior unsecured long-term debt. The long-term debt's negative pledge provisions contain restrictions which, among other things, limit the incursion of additional long-term debt. Accordingly, in order for FG&E to issue new long-term debt, the covenants of the existing long-term agreements must be satisfied, including that FG&E have total funded indebtedness less than 65% of total capitalization, and earnings available for interest equal to at least two times the interest charges for funded indebtedness. As with the UES agreements, FG&E agreements require that if FG&E defaults on any FG&E long-term debt agreement, it would constitute a default under all FG&E long-term debt agreements. The FG&E default provisions are not triggered by the actions or defaults of Unitil or its other subsidiaries.

The Unitil, UES and FG&E long-term debt instruments and agreements contain covenants restricting the ability of each company to incur liens and to enter into sale and leaseback transactions, and restricting the ability of each company to consolidate with, to merge with or into, or to sell or otherwise dispose of all or substantially all of its assets.

In addition, the Unitil, UES and FG&E long-term debt instruments and agreements contain certain restrictions on the payment of common dividends from Retained Earnings. On December 31, 2007, Unitil, UES and FG&E had unrestricted Retained Earnings of $18.4 million, $15.7 million and $7.1 million, respectively, available for the payment of common dividends. UES and FG&E pay dividends to their sole shareholder, Unitil Corporation, and these dividends are the primary source of cash for the payment of dividends to Unitil's common shareholders.

Debt Repayment and Sinking Funds - The total aggregate amount of sinking fund payments relating to bond issues and normal scheduled long-term debt repayments amounted to $335,877, $310,136 and $286,368 in 2007, 2006 and 2005, respectively.

The aggregate amount of bond sinking fund requirements and normal scheduled long-term debt repayments for each of the five years following 2007 is: 2008 - $363,755; 2009 - $393,946; 2010 - $426,643; 2011 - $462,055; and 2012 - $500,405, respectively.

Long-Term Debt Issuances - On May 2, 2007, Unitil completed the sale of $20 million of Senior Long-Term Notes, through a private placement to institutional investors. The Notes have a term of 15 years maturity and a coupon rate of 6.33%. The Company utilized the proceeds from the long-term Note financing to refinance existing short-term debt and for other corporate purposes of the Company's principal utility subsidiaries.

On September 26, 2006 UES issued and sold $15 million of Series O 6.32% First Mortgage Bonds, due September 15, 2036, to institutional investors in the form of a private placement. The proceeds from this long-term financing were used principally to permanently finance long-lived utility plant additions that had been previously financed on an interim basis with short-term bank borrowings.

FG&E, through a private placement, consummated the issuance and sale on December 21, 2005 of $15 million of unsecured long-term notes to institutional investors. The notes have a term of 25 years and a coupon rate of 5.90%. The net proceeds were used to reduce FG&E's outstanding short-term indebtedness.

Fair Value of Long-Term Debt - The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the Company's long-term debt at December 31, 2007 is estimated to be in a range of up to approximately $168 million, before considering any costs, including prepayment costs, to market the Company's debt. Currently, the Company believes that there is no active market in the Company's debt securities, which have all been sold through private placements.

Interest Expense, net - Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. Certain reconciling rate mechanisms used by the Company's distribution operating utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated.

The Company operates a number of reconciling rate mechanisms to recover specifically identified costs on a pass through basis. These reconciling rate mechanisms track costs and revenue on a monthly basis. In any given month, this monthly tracking and reconciling process will produce either an under-collected or an over-collected balance of costs. In accordance with the Company's rate tariff, interest is accrued on these balances and will produce either interest income or interest expense. Interest income is recorded on an under-collection of costs, which creates a regulatory asset to be recovered in future periods when rates are reset. Interest expense is recorded on an over-collection of costs, which creates a regulatory liability to be refunded in future periods when rates are reset.

A summary of interest expense and interest income is provided in the following table:

Interest Expense, net (millions)	**2007**	**2006**	**2005**
Interest Expense			
Long-term Debt	**$ 11.1**	$ 9.5	$ 8.4
Short-term Debt	**1.1**	1.5	1.0
Regulatory Liabilities	**0.8**	0.3	0.2
Subtotal Interest Expense	**13.0**	11.3	9.6
Interest Income			
Regulatory Assets	**(2.9)**	(3.1)	(2.6)
AFUDC and Other	**(0.5)**	(0.4)	(0.2)
Subtotal Interest Income	**(3.4)**	(3.5)	(2.8)
Total Interest Expense, net	**$ 9.6**	$ 7.8	$ 6.8

Credit Arrangements

At December 31, 2007, Unitil had unsecured committed bank lines for short-term debt in the aggregate amount of $30.0 million with three banks for which it pays commitment fees. The weighted average interest rates on all short-term borrowings were 5.6%, 5.5% and 3.8% during 2007, 2006 and 2005, respectively. The Company had short-term debt outstanding through bank borrowings of approximately $18.8 million and $26.0 million at December 31, 2007 and December 31, 2006, respectively.

Leases

Unitil's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their vehicles, machinery and office equipment under both capital and operating lease arrangements.

Total rental expense under operating leases charged to operations for the years ended December 31, 2007, 2006 and 2005 amounted to $433,000, $410,000 and $301,000 respectively. FG&E leases its operations facility in Fitchburg, Massachusetts under an operating lease, with a primary term through January 31, 2013. The lease agreement allows for three additional five-year renewal periods at the option of FG&E.

The following is a schedule of future operating lease payment obligations and future minimum lease payments under capital leases as of December 31, 2007:

Year Ending December 31, (000's)	Operating Leases	Capital Leases
2008	$ 524	$ 313
2009	521	169
2010	498	127
2011	442	81
2012	414	81
2013 – 2017	435	27
Total Payments	**$ 2,834**	**$ 798**

Guarantees

The Company also provides limited guarantees on certain energy contracts entered into by the retail distribution utilities. The Company's policy is to limit these guarantees to two years or less. As of December 31, 2007 there are $6.5 million of guarantees outstanding and these guarantees extend through March 13, 2009. These guarantees are not required to be recorded under the provisions of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."

Note 4: Energy Supply

Electric Supply:

As a result of restructuring of the electric utility industry in Massachusetts and New Hampshire, Unitil's customers in both New Hampshire and Massachusetts have the opportunity to purchase their electric supply from competitive retail suppliers. Retail choice has been successful for Unitil's largest customers. As of December 2007, 94, or 60%, of Unitil's largest New Hampshire customers representing 23% of total New Hampshire electric sales and 27, or 84%, of Unitil's largest Massachusetts customers representing 35% of total Massachusetts electric sales are purchasing their electric power supply in the competitive market. This represents an increase of 25 in the number of large customers, primarily in New Hampshire, participating in the competitive market as of December 2007 compared to December 2006. However, most residential and small commercial customers continue to purchase their electric supply through the retail distribution utilities. The concentration of the competitive retail market on higher use customers has been a common experience throughout the New England electricity market.

The transition to retail choice required the divestiture of Unitil's power supply arrangements and the procurement of load-following replacement supplies, which provided the flexibility for migration of customers to and from utility service. FG&E, UES, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the ISO-NE markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve Unitil's retail customers.

Power Supply Divestiture

Prior to May 1, 2003, UES purchased all of its power supply from Unitil Power under the Unitil System Agreement, a FERC-regulated tariff, which provided for the recovery of all of Unitil Power's power supply-related costs on a cost pass-through basis. Effective May 1, 2003, UES and Unitil Power amended the Unitil System Agreement, such that power sales from Unitil Power to UES ceased, and Unitil Power sold substantially all of its entitlements under the remaining portfolio of power supply contracts. Under the amended Unitil System Agreement, UES continues to pay contract release payments to Unitil Power for stranded costs associated with the portfolio sale and its other ongoing power supply-related costs. Recovery of the contract release payments by UES from its retail customers has been approved by the NHPUC.

In connection with the implementation of retail choice, Unitil Power and FG&E divested substantially all of their long-term power supply contracts and interests in generation assets through the sale of the interest in those assets or the sale of the entitlements to the electricity provided by those generation assets and long-term power supply contracts. UES and FG&E recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next three to five years, is $104.8 million as of December 31, 2007 and is included in Regulatory Assets on the Company's Consolidated Balance Sheet (see Regulatory Assets table in Note 1). Unitil's retail distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

Regulated Energy Supply

In order to provide regulated electric supply as the provider of last resort to their respective retail customers, the retail distribution companies enter into load-following wholesale electric power supply contracts with various wholesale suppliers.

FG&E has power supply contracts with various wholesale suppliers for the provision of Default Service energy supply. MDPU policy dictates the pricing structure and duration of each of these contracts. Currently, all Default Service power supply contracts for large general accounts are three months in duration and provide 100% of supply requirements. Default Service power supply contracts for residential and small and medium general service customers are acquired every 6 months, are 12 months in duration and provide 50% of the supply requirements. The MDPU regularly investigates alternatives to its statewide procurement policy, which could lead to future changes in the procurement structure described above.

UES currently has power supply contracts with various wholesale suppliers for the provision of Default Service to its customers. UES procures Default Service supply for its large general service accounts through competitive solicitations for power contracts of three-months in duration for 100% of supply requirements. UES procures Default Service supply for its other customers through a series of two one-year contracts and two three-year contracts, each providing 25% of the total supply requirements of the group.

Regional Transmission and Power Markets

FG&E, UES and Unitil Power, as well as virtually all New England electric utilities, are participants in ISO New England Inc., the Regional Transmission Organization (RTO) in New England. The regional bulk power system is operated by an independent corporate entity, ISO-NE. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economic manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. The Tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric marketplace. The formation of an RTO and other wholesale market changes are not expected to have a material impact on Unitil's operations because of the cost recovery mechanisms for wholesale energy and transmission costs approved by the MDPU and NHPUC.

Gas Supply:

FG&E's natural gas customers have the opportunity to purchase their natural gas supply from third-party vendors, although most customers continue to purchase such supplies at regulated rates through FG&E as the provider of last resort. The costs associated with the acquisition of such wholesale natural gas supplies for customers who do not contract with third-party suppliers are recovered on a pass-through basis through periodically-adjusted rates and are included in Purchased Gas in the Consolidated Statements of Earnings.

FG&E purchases natural gas from domestic and Canadian suppliers under contracts of one year or less, as well as from producers and marketers on the spot market. FG&E arranges for gas delivery to its city gate station or underground storage through its own long-term contracts with the Tennessee interstate pipeline. The suppliers do have the option to deliver to the city gate station or in the case of liquefied natural gas (LNG) or liquefied propane gas (LPG) trucked to each storage facility within FG&E's service territory.

Sources of Gas Supply
(Expressed as percent of total MMBtu of gas purchased)

	2007	2006	2005
Natural Gas:			
Domestic firm	**94.6%**	84.2%	84.8%
Canadian firm	**2.2%**	2.0%	3.4%
Domestic spot market	**2.3%**	11.0%	9.3%
Total natural gas	**99.1%**	97.2%	97.5%
Supplemental gas	**0.9%**	2.8%	2.5%
Total gas purchases	**100.0%**	100.0%	100.0%

Cost of Gas Sold

	2007	2006	2005
Cost of gas purchased and sold per MMBtu	**$ 10.41**	$ 11.18	$ 10.83
Percent Increase (Decrease) from prior year	**(6.9%)**	3.2%	28.7%

FG&E has available under firm contract 14,057 MMBtu per day of year-round and seasonal transportation and underground storage capacity to its distribution facilities. As a supplement to pipeline natural gas, FG&E owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

Note 5: Commitments and Contingencies

Regulatory Matters

Overview – Unitil's retail distribution utilities have the franchise to deliver electricity and/or natural gas to all customers in the Company's franchise areas, at rates established under traditional cost of service regulation. Under this regulatory structure, UES and FG&E recover the cost of providing distribution service to their customers based on a representative test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in Massachusetts and New Hampshire, all of Unitil's customers have the opportunity to purchase their electric or natural gas supplies from third-party suppliers. Most small and medium-sized customers, however, continue to purchase such supplies through UES and FG&E as the providers of basic or default service energy supply. UES and FG&E purchase electricity or natural gas for basic or default service from unaffiliated wholesale suppliers and recover the actual costs of these supplies, without profit or markup, through reconciling, pass-through rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, Unitil Power and FG&E divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. UES and FG&E recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next three to five years, is $104.8 million as of December 31, 2007 and is included in Regulatory Assets on the Company's Consolidated Balance Sheet. Unitil's retail distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

FG&E – Electric Division – FG&E provides electric distribution service to customers under unbundled distribution rates approved by the MDPU. Its current retail electric distribution rates were approved by the MDPU in 2002. FG&E is required, as the provider of last resort, to purchase and provide power through Default Service for retail customers who chose not to buy, or were unable to purchase, energy from a competitive supplier. Prices for Default Service are set periodically based on market solicitations as approved by the MDPU. As of December 31, 2007, approximately 57 percent of FG&E's electric load was served by Default Service. The remaining portion was served by competitive third party suppliers. The vast majority of customers being served by competitive third party suppliers are large commercial and industrial (C&I) customers. Most residential and small commercial customers continue to purchase their electric supply through the retail distribution utility.

As a result of the restructuring and the divestiture of FG&E's owned generation assets and buyout of FG&E's power supply obligations, Regulatory Assets on the Company's balance sheets include the following three categories: Power Supply Buyout Obligations associated with the divestiture of its long-term purchase power obligations; Recoverable Deferred Restructuring Charges resulting from the restructuring legislation's seven year rate cap; and Recoverable Generation-related Assets associated with the divestiture of its owned generation plant. FG&E earns carrying charges on the majority of the unrecovered balances of the Recoverable Deferred Restructuring Charges. The value of FG&E's Recoverable Deferred Restructuring Charges and Recoverable Generation-related Assets was approximately $32.1 million at December 31, 2007, and $33.3 million at December 31, 2006 and is expected to be recovered in FG&E's rates over the next three to five years. In addition, as of December 31, 2007, FG&E had recorded on its balance sheet $42.0 million as Power Supply Buyout Obligations and corresponding Regulatory Assets associated with the divestiture of its long-term purchase power contracts, which are included in Unitil's consolidated financial statements, and on which carrying charges are not earned as the timing of cash disbursements and cash receipts associated with these long-term obligations is matched through rates.

On August 17, 2007, FG&E filed an electric distribution rate increase of $3.3 million, which represents an increase of 4.7 percent over FG&E's 2006 total electric operating revenue. The MDPU has suspended the effective date until March 1, 2008 in order to investigate the propriety of the Company's request. Evidentiary hearings were held in November 2007 and briefing was completed in January 2008. The Company anticipates that it will receive a final order from the MDPU with an effective date for new electric rates of March 1, 2008.

FG&E – Gas Division – FG&E provides natural gas delivery service to its customers on a firm or interruptible basis under unbundled distribution rates approved by the MDPU. Its current retail distribution rates were approved by the MDPU in 2007. FG&E's customers may purchase gas supplies from third-party vendors or purchase their gas from FG&E as the provider of last resort. FG&E collects its gas supply costs through a seasonal reconciling Cost of Gas Adjustment Clause and recovers other related costs through a reconciling Local Distribution Adjustment Clause.

On January 26, 2007, the MDPU approved a rate Settlement Agreement (Settlement) between FG&E and the Attorney General of Massachusetts for FG&E's Gas Division. Under the Settlement, FG&E increased its gas distribution rates by $1.2 million on February 1, 2007, and an additional $1.0 million on November 1, 2007. The Settlement also included agreement on several other rate matters and service quality performance measures for the Company's Gas Division in the areas of safety, customer service and satisfaction.

FG&E – Other – On June 22, 2007, the MDPU opened an inquiry into revenue decoupling, generally defined as a ratemaking mechanism designed to eliminate or reduce the dependence of a utility's distribution revenues on sales. Revenue decoupling is adopted with the intent of removing the disincentive a utility has to administer and promote customer efforts to reduce energy consumption and demand or to install distributed generation to displace electricity delivered by the utility. The order included a straw proposal for a base revenue adjustment mechanism that severs the link between electric and gas companies' revenues and sales, and instead, ties company revenues to the number of customers served. Many interested parties filed comments on the elements of the straw proposal and on revenue decoupling in general. Several parties also provided comments in panel hearings organized by the MDPU. Unitil filed comments generally supporting revenue decoupling and recommended modifications to the MDPU's straw proposal. This matter remains pending.

UES – UES provides electric distribution service to its customers pursuant to rates approved by the NHPUC. Its current retail electric distribution rates were approved by the NHPUC in 2006 under the Settlement Agreement discussed below. As the provider of last resort, UES also provides its customers with electric power through Default Service at rates which reflect UES' costs for wholesale supply with no profit or markup. UES procures Default Service power for its larger commercial and industrial customers on a quarterly basis, and for its smaller commercial and residential customers through a portfolio of longer term contracts on a semi-annual basis. UES recovers its costs for this service on a pass-through basis through reconciling rate mechanisms. As of December 31, 2007, approximately 74 percent of UES' electric load was served by Default Service. The remaining portion was served by competitive third party suppliers. The vast majority of customers being served by competitive third party suppliers are large C&I customers. Most residential and small commercial customers continue to purchase their electric supply through the retail distribution utility.

In the 2002 restructuring settlement, the NHPUC approved the divestiture of the long-term power supply portfolio by Unitil Power and tariffs for UES for stranded cost recovery, including certain charges that remain subject to annual or periodic reconciliation or future review. As of December 31, 2007, UES had recorded on its balance sheets $30.7 million as Power Supply Contract Obligations and corresponding Regulatory Assets associated with these long-term purchase power stranded costs, which are included in Unitil Corporation's consolidated financial statements. These Power Supply Contract Obligations are expected to be recovered principally over a period of approximately three years. The Company does not earn carrying charges on these regulatory assets as the timing of cash receipts and cash disbursements associated with these long-term obligations is matched through rates.

On October 6, 2006, UES received approval from the NHPUC of a Settlement Agreement (Agreement) resolving its electric distribution base rate case filed in November, 2005. The terms of the Agreement provided for an increase in base distribution rates of $2.3 million effective as of January 1, 2006. Additionally, the NHPUC has authorized two step increases in base distribution rates in accordance with the terms of the Agreement, related to utility plant additions in 2006, of approximately $0.4 million and $0.1 million annually, effective as of November 1, 2006 and May 1, 2007, respectively.

On June 22, 2007, the NHPUC issued an order in its investigation into implementation of the federal Energy Policy Act of 2005 regarding the adoption of standards for time-based metering and interconnection. This order set the framework for implementation of time based rates for utility-provided default service. On August 31, 2007, the NHPUC issued an order on motion for rehearing, staying the June 22, 2007 order pending hearing and reconsideration of the issues. An order following hearing was issued on January 22, 2008 finding that it is appropriate to implement time-based metering standards and ordering that the details, including cost-benefit analyses, form of rate design, time of implementation and applicable customer classes shall be determined in separate proceedings to be initiated by the Commission.

On May 14, 2007, the NHPUC issued an order opening an investigation into the merits of instituting appropriate rate mechanisms, such as revenue decoupling, which would have the effect of removing obstacles to, and encouraging investment in, energy efficiency. Several parties attended the prehearing conference on June 18, 2007 and subsequent technical sessions. On July 30, 2007, the gas and electric utilities made baseline presentations designed to assist the parties in understanding current regulatory methods and the utilities' assessment of existing incentives and barriers to energy efficiency investment. On November 7, 2007, the Commission hosted expert presentations about the potential of various regulatory approaches to promote energy efficiency. The proceeding remains open.

FERC – Wholesale Power Markets – FG&E, UES and Unitil Power, as well as virtually all New England electric utilities, are participants in ISO New England Inc., the RTO in New England. The regional bulk power system is operated by an independent corporate entity, ISO-NE. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economic manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England are performed on a regional basis. The ISO-NE Tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric marketplace. The formation of an RTO and other wholesale market changes are not expected to have a material impact on Unitil's operations because of the cost recovery mechanisms for wholesale energy and transmission costs approved by the MDPU and NHPUC.

Environmental Matters

The Company's past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. The Company believes it is in compliance with all applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2007, there are no material losses reasonably possible in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

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

FG&E recovers the environmental response costs incurred at this former MGP site not recovered by insurance or other means in gas rates pursuant to terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, FG&E is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs. In addition FG&E has filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. Any recovery that FG&E receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between FG&E and its gas customers.

FG&E is in the process of developing long range plans for a feasible permanent remediation solution for the Sawyer Passway site, including alternatives for re-use of the site. Included on the Company's Consolidated Balance Sheet at December 31, 2007 and 2006 in Environmental Obligations is $12.0 million related to estimated future clean up costs for permanent remediation of the site. A corresponding regulatory asset was recorded to reflect the future rate recovery for these costs. The amounts recorded do not assume any amounts are recoverable from insurance companies or other third parties.

The Company's ultimate liability for future environmental remediation costs may vary from estimates, which may be adjusted as new information or future developments become available. Based on the Company's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, the Company does not believe that these environmental costs will have a material adverse effect on the Company's consolidated financial position or results of operations.

The following table shows the balances and activity in the Company's liability for Environmental Obligations for 2007. The liability for Environmental Obligations was initially recognized on the Company's Consolidated Balance Sheet at December 31, 2006.

ENVIRONMENTAL OBLIGATIONS

(Millions)	Balance at Beginning of Period	Provision	Payments / Reductions	Balance at End of Period
Year Ended December 31, 2007	$ 12.0	$ ---	$ ---	$ 12.0

Note 6: Bad Debts

FG&E and UES are authorized by the MDPU and NHPUC, respectively, to recover the costs of their energy commodity portion of bad debts through reconciling mechanisms. In 2006 and 2007, the Company recorded provisions for the energy commodity portion of bad debts of $1.7 million and $1.5 million, respectively. These provisions were recognized in Purchased Electricity and Purchased Gas expense as the associated electric and gas utility revenues were billed. Purchased Electricity and Purchased Gas costs are recovered from customers through periodic rate reconciling mechanisms. Prior to 2006, the commodity portion of bad debt expense was recognized in Purchased Electricity and Purchased Gas expense when the accounts were actually written off from accounts receivable.

The following table shows the balances and activity in the Company's Allowance for Doubtful Accounts for 2005 – 2007.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at Beginning of Period	Additions: Provision	Additions: Recoveries	Accounts Written Off	Balance at End of Period
Year Ended December 31, 2007					
Electric	**$ 1,264,102**	**$ 1,434,356**	**$ 147,497**	**$ 1,840,407**	**$ 1,005,548**
Gas	**438,159**	**971,958**	**113,924**	**1,298,740**	**225,301**
Other	**34,526**	**34,659**	**---**	**33,644**	**35,541**
	$ 1,736,787	**$ 2,440,973**	**$ 261,421**	**$ 3,172,791**	**$ 1,266,390**
Year Ended December 31, 2006					
Electric	$ 342,791	$ 1,963,222	$ 136,399	$ 1,178,310	$ 1,264,102
Gas	110,031	1,325,650	134,802	1,132,324	438,159
Other	16,926	29,313	1,780	13,493	34,526
	$ 469,748	$ 3,318,185	$ 272,981	$ 2,324,127	$ 1,736,787
Year Ended December 31, 2005					
Electric	$ 392,824	$ 714,917	$ 116,290	$ 881,240	$ 342,791
Gas	89,602	721,171	116,366	817,108	110,031
Other	18,297	9,602	---	10,973	16,926
	$ 500,723	$ 1,445,690	$ 232,656	$ 1,709,321	$ 469,748

Note 7: Income Taxes

Federal Income Taxes were provided for the following items for the years ended December 31, 2007, 2006 and 2005, respectively:

	2007	2006	2005
Current Federal Tax Provision (000's):			
Operating Income	**$ 4,522**	$ 3,448	$ 3,671
Total Current Federal Tax Provision	**4,522**	3,448	3,671
Deferred Federal Tax Provision (000's)			
Accelerated Tax Depreciation	**(444)**	(656)	(668)
Abandoned Properties	**---**	---	(796)
Accrued Revenue	**(287)**	795	1,296
Retirement Benefit Obligations	**303**	271	299

Regulatory Assets and Liabilities	**(113)**	(5)	---
Other, net	**(243)**	(87)	(353)
Total Deferred Federal Tax Provision (Benefit)	**(784)**	318	(222)
Total Federal Tax Provision	**$ 3,738**	$ 3,766	$ 3,449

The components of the Federal and State income tax provisions reflected as operating expenses in the accompanying consolidated statements of earnings for the years ended December 31, 2007, 2006 and 2005 are shown in the table below. In addition to the provisions for federal and state income taxes, the Company recorded provisions of $203,000, $211,000 and $179,000 in 2007, 2006 and 2005, respectively for state Business Enterprise taxes which are included in Local Property and Other Taxes on the consolidated statements of earnings.

Federal and State Tax Provisions (000's)	**2007**	2006	2005
Federal			
Current	**$ 4,522**	$ 3,448	$ 3,671
Deferred	**(784)**	318	(222)
Total Federal Tax Provision	**3,738**	3,766	3,449
State			
Current	**896**	337	844
Deferred	**(138)**	163	(18)
Total State Tax Provision	**758**	500	826
Total Provision for Federal and State Income Taxes	**$ 4,496**	$ 4,266	$ 4,275

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

	2007	2006	2005
Statutory Federal Income Tax Rate	**34%**	34%	34%
Income Tax Effects of:			
State Income Taxes, Net	**5**	5	5
Utility Plant Differences	**(4)**	(4)	(6)
Other, Net	**---**	1	---
Effective Income Tax Rate	**35%**	36%	33%

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

Deferred Income Taxes (000's)	**2007**	2006
Accelerated Depreciation	**$ 19,776**	$ 25,232
Regulatory Assets / Liabilities & Mechanisms	**23,239**	23,592

Retirement Benefit Obligations	**(15,585)**	(17,644)
Contributions in Aid to Construction	**(4,651)**	(4,759)
Retirement Loss	**5,711**	4,945
Percentage Repair Allowance	**1,869**	1,994
Other	**3,024**	1,166
Total Deferred Income Tax Liabilities	**$ 33,383**	$ 34,526

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), an interpretation of FAS 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in enterprise's financial statements. FIN 48 prescribes a "more-likely-than-not" recognition threshold for the recognition and measurement of the benefits of a tax position taken or expected to be taken. FIN 48 applies to all tax positions related to income taxes subject to FAS 109. This includes tax positions considered to be routine as well as those with a high degree of uncertainty such as tax-advantaged transactions. FIN 48 effectively amends SFAS No. 5, such that all references to income taxes in SFAS No. 5 have been deleted and FIN 48 is now the primary guidance in accounting for uncertainty in income taxes. FIN 48 creates a single model to address accounting for uncertainty in tax positions. Under FIN 48, tax positions accounted for under FAS 109 will be evaluated for recognition, derecognition, and classification and the cumulative affect of adopting FIN 48 may be recorded as an adjustment to retained earnings. The Company adopted FIN 48 as of January 1, 2007 and there was no impact on the Company's Consolidated Financial Statements.

The Company evaluated its tax positions at December 31, 2007 in accordance with FIN 48, and has concluded that no adjustment for recognition, derecognition, settlement and foreseeable future events to any unrecognized tax liabilities or assets as defined by FIN 48 is required. The Company does not have any unrecognized tax positions for which it is reasonably possible that the total amounts recognized will significantly change within the next 12 months. The Company remains subject to examination by Federal, Massachusetts and New Hampshire tax authorities for the tax periods ended December 31, 2004; December 31, 2005; and December 31, 2006. Income tax filings for the year ended December 31, 2007 are due March 15, 2008 but likely will be extended until September 15, 2008. The Company classifies penalty and interest expense related to income tax liabilities as an income tax expense. There are no material interest and penalties recognized in the statement of earnings or accrued on the balance sheet.

Note 8: Retirement Benefit Plans

The Company sponsors the following retirement benefit plans to provide certain pension and postretirement benefits for its retirees and current employees as follows:

- The Unitil Corporation Retirement Plan (Pension Plan) - The Pension Plan is a defined benefit pension plan covering substantially all of its employees. Under the Pension Plan, retirement benefits are based upon an employee's level of compensation and length of service.

- The Unitil Retiree Health and Welfare Benefits Plan (PBOP Plan) – The PBOP Plan provides health care and life insurance benefits to retirees. The Company has established Voluntary Employee Benefit Trusts (VEBT), into which it funds contributions to the PBOP Plan.

- The Unitil Corporation Supplemental Executive Retirement Plan (SERP) – The SERP is an unfunded retirement plan, with participation limited to executives selected by the Board of Directors.

The following table includes the key assumptions used in determining the Company's benefit plan costs and obligations:

	2007	2006	2005

Used to Determine Plan costs for years ended December 31:			
Discount Rate	**5.50%**	5.50%	6.00%
Rate of Compensation Increase	**3.50%**	3.50%	3.50%
Expected Long-term rate of return on plan assets	**8.50%**	8.50%	8.50%
Health Care Cost Trend Rate Assumed for Next Year	**8.50%**	9.00%	8.00%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%	4.00%
Year that Ultimate Health Care Cost Trend Rate is reached	**2016**	2016	2013
Effect of 1% Increase in Health Care Cost Trend Rate (000's)	**$ 690**	$ 683	$ 526
Effect of 1% Decrease in Health Care Cost Trend Rate (000's)	**$ (539)**	$ (530)	$ (413)

Used to Determine Benefit Obligations at December 31:			
Discount Rate	**6.00%**	5.50%	5.50%
Rate of Compensation Increase	**3.50%**	3.50%	3.50%
Health Care Cost Trend Rate Assumed for Next Year	**8.50%**	8.50%	9.00%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%	4.00%
Year that Ultimate Health care Cost Trend Rate is reached	**2017**	2016	2016
Effect of 1% Increase in Health Care Cost Trend Rate (000's)	**$ 6,282**	$ 6,381	$ 5,917
Effect of 1% Decrease in Health Care Cost Trend Rate (000's)	**$(5,030)**	$(5,091)	$(4,737)

The Discount Rate assumptions used in determining retirement plan costs and retirement plan obligations are based on a market average of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. For 2007, 2006 and 2005, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $200,000 in the Net Periodic Benefit Cost (NPBC). The Rate of Compensation Increase assumption used for 2007, 2006 and 2005 was 3.50%, based on the expected long-term increase in compensation costs for personnel covered by the plans.

The Expected Long-Term Rate of Return on plan assets assumption used by the Company is developed based on input from actuaries and investment managers. The Company's Expected Long-Term Rate of Return on plan assets is based on target investment allocation of 60% in common stock equities and 40% in fixed income securities. The actual investment allocations are shown in the table below.

	Target Allocation	**Actual Allocation at December 31,**		
	2007	**2007**	2006	2005
Equity Securities	58-62%	**57%**	61%	60%
Debt Securities	38-42%	**43%**	39%	40%
Real Estate and Other	0-2%	**0%**	0%	0%
Total		**100%**	100%	100%

The combination of these target allocations and expected returns resulted in the overall assumed long-term rate of return of 8.50% for 2007. The Company evaluates the actuarial assumptions, including the expected rate of return, at least annually. The desired investment objective is a long-term rate of return on assets that is approximately 6% greater than the assumed rate of inflation as measured by the Consumer Price Index. The target rate of return for the Plans has been based upon an analysis of historical returns supplemented with an economic and structural review for each asset class.

The following table provides the components of the Company's Retirement plan costs ($000's):

	Pension Plan			PBOP Plan			SERP		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
Service Cost	**$ 1,968**	$ 1,800	$ 1,458	**$ 1,431**	$ 1,283	$ 993	**$ 163**	$ 148	$ 90
Interest Cost	**3,336**	3,153	3,085	**2,057**	2,028	1,795	**118**	103	80
Expected Return on Plan Assets	**(4,195)**	(3,775)	(3,404)	**(245)**	(194)	(41)	**---**	---	---
Prior Service Cost Amortization	**106**	107	107	**1,360**	1,360	1,401	**(2)**	(2)	(2)
Transition Obligation Amortization	**---**	---	---	**21**	21	21	**---**	17	17
Actuarial Loss Amortization	**1,345**	1,324	1,146	**70**	160	---	**44**	39	5
Sub-total	**2,560**	2,609	2,392	**4,694**	4,658	4,169	**323**	305	190
Amounts Capitalized and Deferred	**(873)**	(1,014)	(1,751)	**(2,033)**	(2,217)	(2,051)	---	---	---
NPBC Recognized	**$ 1,687**	$ 1,595	$ 641	**$ 2,661**	$ 2,441	$ 2,118	**$ 323**	$ 305	$ 190

The estimated amortizations related to Actuarial Loss and Prior Service Cost included in the Company's Retirement plan costs over the next fiscal year is $1.4 million, $1.4 million and less than $0.1 million for the Pension, PBOP and SERP plans, respectively.

The Company bases the actuarial determination of pension expense on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a three-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the fair value of assets. Since the market-related value of assets recognizes gains or losses over a three-year period, the future value of the market-related assets will be impacted as previously deferred gains or losses are recognized. The Company's pension expense for the years 2007, 2006 and 2005 was $2.6 million, $2.6 million and $2.4 million, respectively. Had the Company used the fair value of assets instead of the market-related value, pension expense for the years 2007, 2006 and 2005 would have been $2.5 million, $2.8 million and $2.2 million respectively.

The following table represents information on the plans' assets, projected benefit obligations (PBO), and funded status ($000's):

Pension Plan	PBOP Plan	SERP

	2007	2006	2007	2006	2007	2006
Change in Plan Assets:						
Plan Assets at Beginning of Year	**$ 49,527**	$ 44,535	**$ 3,052**	$ 2,304	**$ ---**	$ ---
Actual Return on Plan Assets	**2,480**	4,958	**89**	78	**---**	---
Employer Contributions	**2,800**	2,510	**2,500**	2,210	**72**	72
Benefits Paid	**(2,645)**	(2,476)	**(1,497)**	(1,540)	**(72)**	(72)
Plan Assets at End of Year	**$ 52,162**	$ 49,527	**$ 4,144**	$ 3,052	**$ ---**	$ ---
Change in PBO:						
PBO at Beginning of Year	**$ 62,027**	$ 58,586	**$ 38,107**	$ 37,528	**$ 2,179**	$ 1,910
Service Cost	**1,968**	1,800	**1,431**	1,283	**163**	148
Interest Cost	**3,336**	3,153	**2,057**	2,028	**118**	103
Benefits Paid	**(2,645)**	(2,476)	**(1,497)**	(1,540)	**(72)**	(72)
Actuarial (Gain) or Loss	**(257)**	964	**(2,115)**	(1,192)	**(244)**	90
PBO at End of Year	**$ 64,429**	$ 62,027	**$ 37,983**	$ 38,107	**$ 2,144**	$ 2,179
Funded Status: Assets vs PBO	**$ (12,267)**	$ (12,500)	**$ (33,839)**	$ (35,055)	**$ (2,144)**	$ (2,179)

In September 2006, the FASB issued SFAS No. 158 which requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations based on the projected benefit obligation. The Company has recognized Regulatory Assets of $35.1 million and $37.1 million at December 31, 2007 and 2006, respectively, to recognize the future collection of these plan obligations in electric and gas retail rates.

In accordance with SFAS No. 132 “Employers Disclosures about Pensions and Other Postretirement Benefits,” the Accumulated Benefit Obligation (ABO) is required to be disclosed for all plans where the ABO is in excess of plan assets. The difference between the PBO and the ABO is that the PBO includes projected compensation increases. The ABO for the Pension Plan was $55.1 million and $52.8 million as of December 31, 2007 and 2006, respectively. The ABO for the SERP was $0.6 million and $0.7million as of December 31, 2007 and 2006, respectively. For the PBOP Plan, the ABO and PBO are the same.

On August 17, 2006, the Pension Protection Act of 2006 (PPA) was signed into law. Included in the PPA are new minimum funding rules which will go into effect for plan years beginning in 2008. The funding target will be 100% of a plan’s liability with any shortfall amortized over seven years, with lower (92% - 100%) funding targets available to well-funded plans during the transition period. The Company expects to contribute approximately $2.8 million to fund its Pension Plan in 2008.

The following table represents employer contributions and benefit payments ($000’s). There were no participant contributions.

Pension Plan	PBOP Plan	SERP

	2007	2006	2005	2007	2006	2005	2007	2006	2005
Employer Contributions	**$ 2,800**	$ 2,510	$ 2,500	**$ 2,500**	$ 2,210	$ 2,500	**$ 72**	$ 72	$ 72
Benefit Payments	**$ 2,645**	$ 2,476	$ 2,404	**$ 1,497**	$ 1,540	$ 1,334	**$ 72**	$ 72	$ 72

The following table represents estimated future benefit payments ($000's).

	Estimated Future Benefit Payments		
	Pension	**PBOP**	**SERP**
2008	$ 2,940	$ 1,401	$ 71
2009	3,021	1,509	69
2010	3,224	1,670	66
2011	3,324	1,819	63
2012	3,432	1,942	61
2013 - 2017	$ 20,313	$ 11,361	$ 258

Employee 401(k) Tax Deferred Savings Plan --- The Company sponsors the Unitil Corporation Tax Deferred Savings and Investment Plan (the 401(k) Plan) under Section 401(k) of the Internal Revenue Code and covering substantially all of the Company's employees. Participants may elect to defer current compensation by contributing to the plan. The Company matches contributions, with a maximum matching contribution of 3% of current compensation. Employees may direct, at their sole discretion, the investment of their savings plan balances (both the employer and employee portions) into a variety of investment options, including a Company Common Stock fund. Participants are 100% vested in contributions made on their behalf, once they have completed three years of service. The Company's share of contributions to the 401(k) Plan was $533,000, $528,000 and $503,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

Note 9: Segment Information

Unitil reported four segments: utility electric operations, utility gas operations, other, and non-regulated. Unitil is engaged principally in the retail sale and distribution of electricity in New Hampshire and both electricity and natural gas service in Massachusetts through its retail distribution subsidiaries UES and FG&E. Unitil Resources is the Company's wholly-owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly-owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to large commercial and industrial customers in the northeastern United States. Unitil Realty and Unitil Service provide centralized facilities, operations and administrative services to support the affiliated Unitil companies.

Unitil Realty, Unitil Service and the holding company are included in the "Other" column of the table below. Unitil Service provides centralized management and administrative services, including information systems management and financial record keeping. Unitil Realty owns certain real estate, principally the Company's corporate headquarters. The earnings of the holding company are principally derived from income earned on short-term investments and real property owned for Unitil and its subsidiaries' use. Unitil Resources and Usource are included in the Non-Regulated column below.

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

The following table provides significant segment financial data for the years ended December 31, 2007, 2006 and 2005 ($ Millions):

Year Ended December 31, 2007	Electric	Gas	Other	Non-Regulated	Total
Revenues	**$ 225.0**	**$ 34.2**	**$ ---**	**$ 3.7**	**$ 262.9**
Interest Income	**2.8**	**0.1**	**0.5**	**---**	**3.4**
Interest Expense	**9.6**	**2.1**	**1.3**	**---**	**13.0**
Depreciation & Amortization Expense	**12.6**	**3.8**	**1.3**	**0.1**	**17.8**
Income Tax Expense (Benefit)	**3.8**	**0.4**	**0.1**	**0.2**	**4.5**
Segment Profit (Loss)	**7.3**	**1.0**	**---**	**0.3**	**8.6**
Segment Assets	**334.1**	**111.9**	**27.8**	**0.8**	**474.6**
Capital Expenditures	**26.2**	**6.1**	**0.2**	**---**	**32.5**
Year Ended December 31, 2006					
Revenues	$ 225.2	$ 33.3	$ ---	$ 2.4	$ 260.9
Interest Income	3.0	0.1	0.4	---	3.5
Interest Expense	9.5	1.1	0.6	0.1	11.3
Depreciation & Amortization Expense	11.2	3.5	1.3	0.1	16.1
Income Tax Expense (Benefit)	4.2	0.1	0.1	(0.1)	4.3
Segment Profit (Loss)	7.0	0.5	0.6	(0.2)	7.9
Segment Assets	346.7	113.1	22.7	0.9	483.4
Capital Expenditures	26.3	7.2	0.1	---	33.6
Year Ended December 31, 2005					
Revenues	$ 197.3	$32.8	$ ---	$ 2.0	$ 232.1
Interest Income	2.5	0.1	0.2	---	2.8
Interest Expense	8.1	0.9	0.6	---	9.6
Depreciation & Amortization Expense	14.5	3.1	1.4	0.1	19.1
Income Tax Expense (Benefit)	3.9	0.4	---	---	4.3
Segment Profit (Loss)	7.0	0.9	0.5	---	8.4
Segment Assets	328.2	98.2	22.5	1.2	450.1
Capital Expenditures	17.3	6.9	0.2	---	24.4

Note 10: Quarterly Financial Information (unaudited; Millions, except per share data)

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

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Total Operating Revenues	**$77.8**	$70.7	**$59.0**	$60.3	**$61.8**	$66.2	**$64.3**	$63.7
Operating Income	**$ 4.7**	$ 3.9	**$ 4.3**	$ 3.4	**$ 3.9**	$ 3.8	**$ 5.6**	$ 4.7
Net Income Applicable to Common	**$ 2.6**	$ 2.0	**$ 1.7**	$ 1.4	**$ 1.6**	$ 1.8	**$ 2.7**	$ 2.7
	Per Share Data:							
Earnings Per Common Share	**$ 0.46**	$0.36	**$0.30**	$0.25	**$0.28**	$0.32	**$0.48**	$0.48
Dividends Paid Per Common Share	**$0.345**	$0.345	**$0.345**	$0.345	**$0.345**	$0.345	**$0.345**	$0.345

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Management of the Company, under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2007. Based upon this evaluation, the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded as of December 31, 2007 that the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) are effective.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). In addition, management is required to report their assessment, including their evaluation criteria, on the design and operating effectiveness of the Company's internal control over financial reporting in this Form 10-K.

The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. The Company's internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes policies and procedures which provide reasonable assurances that transactions are properly initiated, authorized, recorded, reported and disclosed, and provide reasonable assurances regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During 2007, management conducted an assessment of the Company's internal control over financial reporting reflected in the financial statements, based upon criteria established in the "Internal Control – Integrated

Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment, which included a comprehensive review of the design and operating effectiveness of the Company's internal control over financial reporting, management believes the Company's internal control over financial reporting is designed and operating effectively as of December 31, 2007.

The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by Vitale, Caturano and Company, an independent registered public accounting firm. Their report appears in Item 8.

Item 9B. Other Information

None

PART III

Item 10. Directors and Executive Officers of the Registrant

Information required by this Item is set forth in Part I, Item 1 of this Form 10-K. Information regarding the Company's Code of Ethics is set forth in the "Corporate Governance and Policies of the Board" section of the 2007 Proxy Statement as filed with the Securities and Exchange Commission.

Item 11. Executive Compensation

Information required by this Item is set forth in the "Compensation Discussion and Analysis" and "Compensation of Named Executive Officers" sections of the 2007 Proxy Statement as filed with the Securities and Exchange Commission.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item is set forth in the "Beneficial Ownership" and "As to the Election of Directors" sections of the 2007 Proxy Statement as filed with the Securities and Exchange Commission, as well as the Equity Compensation Plan Benefit Information table in Part II, Item 5 of this Form 10-K.

Item 13. Certain Relationships and Related Transactions

None

Item 14. Principal Accountant Fees and Services

Information required by this Item is set forth in the "Principal Accountant Fees and Services" section of the 2007 Proxy Statement as filed with the Securities and Exchange Commission.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) and (2) - **LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES**

The following financial statements are included herein under Part II, Item 8, Financial Statements and Supplementary Data:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets - December 31, 2007 and 2006
- Consolidated Statements of Earnings for the years ended December 31, 2007, 2006, and 2005
- Consolidated Statements of Capitalization - December 31, 2007 and 2006
- Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006, and 2005
- Consolidated Statements of Changes in Common Stock Equity for the years ended December 31, 2007, 2006, and 2005
- Notes to Consolidated Financial Statements

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, are not applicable, or information required is included in the financial statements or notes thereto and, therefore, have been omitted.

(3) - **LIST OF EXHIBITS**

Exhibit Number	Description of Exhibit	Reference*
3.1	Articles of Incorporation of the Company.	Exhibit 3.1 to Form S-14 Registration Statement 2-93769
3.2	Articles of Amendment to the Articles of Incorporation Filed on March 4, 1992 and April 30, 1992.	Exhibit 3.2 to Form 10-K for 1991
3.3	By-laws of the Company.	Exhibit 4 to Form S-8 Registration Statement 333-73327
3.4	Articles of Exchange of Concord Electric Company (CECo), Exeter & Hampton Electric Company (E&H) and the Company.	Exhibit 3.3 to 10-K for 1984
3.5	Articles of Exchange of CECo, E&H, and the Company - Stipulation of the Parties Relative to Recordation and Effective Date.	Exhibit 3.4 to Form 10-K for 1984

3.6	The Agreement and Plan of Merger dated March 1, 1989 among the Company, Fitchburg Gas and Electric Light Company (FG&E) and UMC Electric Co., Inc. (UMC).	Exhibit 25(b) to Form 8-K dated March 1, 1989
3.7	Amendment No. 1 to The Agreement and Plan of Merger dated March 1, 1989 among the Company, FG&E and UMC.	Exhibit 28(b) to Form 8-K dated December 14, 1989 .
4.1	Twelfth Supplemental Indenture of Unitil Energy Systems, Inc., successor to Concord Electric Company, dated as of December 2, 2002, amending and restating the Concord Electric Company Indenture of Mortgage and Deed of Trust dated as of July 15, 1958.	Exhibit 4.1 to Form 10-K for 2002
4.2	FG&E Purchase Agreement dated March 20, 1992 for the 8.55% Senior Notes due March 31, 2004.	Exhibit 4.18 to Form 10-K for 1993
4.3	FG&E Note Agreement dated November 30, 1993 for the 6.75% Notes due November 23, 2023.	Exhibit 4.18 to Form 10-K for 1993
4.4	FG&E Note Agreement dated January 26, 1999 for the 7.37% Notes due January 15, 2028.	Exhibit 4.25 to Form 10-K for 1999
4.5	FG&E Note Agreement dated June 1, 2001 for the 7.98% Notes due June 1, 2031.	Exhibit 4.6 to Form 10-Q for June 30, 2001
4.6	Unitil Realty Corp. Note Purchase Agreement dated July 1, 1997 for the 8.00% Senior Secured Notes due August 1, 2017.	Exhibit 4.22 to Form 10-K for 1997
4.7	FG&E Note Agreement dated October 15, 2003 for the 6.79% Notes due October 15, 2025.	Exhibit 4.7 to Form 10-K for 2003
4.8	FG&E Note Agreement dated December 21, 2005 for the 5.90% Notes due December 15, 2030.	**
Exhibit Number	Description of Exhibit	Reference*
4.9	Thirteenth Supplemental Indenture of Unitil Energy Systems, Inc., dated as of September 26, 2006.	**
4.10	Unitil Corporation Note Purchase Agreement, dated as of May 2, 2007, for the 6.33% Senior Notes due May 1, 2022.	**
10.1	Unitil System Agreement dated June 19, 1986 providing that Unitil Power will supply wholesale requirements electric service to CECo and E&H.	Exhibit 10.9 to Form 10-K for 1986
10.2	Supplement No. 1 to Unitil System Agreement providing that Unitil Power will supply wholesale requirements electric service to CECo and E&H.	Exhibit 10.8 to Form 10-K for 1987
10.3	Transmission Agreement between Unitil Power Corp. and Public Service Company of New Hampshire, effective November 11, 1992.	Exhibit 10.6 to Form 10-K for 1993
10.4	Form of Severance Agreement between the Company and the	Exhibit 10.1 to

	persons listed at the end of such Agreement.	Form 10-Q for September 30, 2003
10.5	Form of Severance Agreement between the Company and the persons listed at the end of such Agreement.	Exhibit 10.2 to Form 10-Q for September 30, 2003
10.6	Key Employee Stock Option Plan effective January 17, 1989.	Exhibit 10.56 to Form 8 dated April 12, 1989
10.7	Unitil Corporation Key Employee Stock Option Plan Award Agreement.	Exhibit 10.63 to Form 10-K for 1989
10.8	Unitil Corporation Management Performance Compensation Plan.	Exhibit 10.94 to Form 10-K/A for 1993
10.9	Unitil Corporation Supplemental Executive Retirement Plan effective as of January 1, 1987.	Exhibit 10.95 to Form 10-K/A for 1993
10.10	Unitil Corporation 1998 Stock Option Plan.	Exhibit 10.12 to Form 10-K for 1998
10.11	Unitil Corporation Management Incentive Plan.	Exhibit 10.13 to Form 10-K for 1998
10.12	Entitlement Sale and Administrative Service Agreement with Select Energy.	Exhibit 10.14 to Form 10-K for 1999
10.13	Purchase and Sale Agreement For New Haven Harbor.	Exhibit 10.15 to Form 10-K for 1999
10.14	Labor Agreement effective June 1, 2000 between CECo and The International Brotherhood of Electrical Workers, Local Union No. 1837.	Exhibit 10.13 to Form 10-K for 2000
10.15	Labor Agreement effective June 1, 2000 between E&H and The International Brotherhood of Electrical Workers, Local Union No. 1837.	Exhibit 10.14 to Form 10-K for 2000

Exhibit Number	Description of Exhibit	Reference*
10.16	Labor Agreement effective June 1, 2000 between FG&E and The Utility Workers of America, AFL-CIO., Local Union No. B340, The Brotherhood of Utility Workers Council.	Exhibit 10.15 to Form 10-K for 2000
10.17	Unitil Corporation 2003 Restricted Stock Plan.	Exhibit 10.16 to Form 10-K for 2002
10.18	Portfolio Sale and Assignment and Transition Service and Default Service Supply Agreement By and Among Unitil Power Corp., Unitil Energy Systems, Inc. and Mirant Americas Energy Marketing, LP.	Exhibit 10.17 to Form 10-K for 2002
10.19	Unitil Corporation Tax Deferred Savings and Investment Plan – Trust Agreement.	Exhibit 10.1 to Form 10-Q for September 30, 2004
10.20	Employment Agreement effective as of November 1, 2006 by and between Unitil Corporation and Robert G. Schoenberger.	Exhibit 10.1 to Form 8-K dated September

		29, 2006
11.1	Statement Re: Computation in Support of Earnings per Share For the Company.	Filed herewith
12.1	Statement Re: Computation in Support of Ratio of Earnings to Fixed Charges for the Company.	Filed herewith
21.1	Statement Re: Subsidiaries of Registrant.	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm.	Filed herewith
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.3	Certification of Chief Accounting Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

* The exhibits referred to in this column by specific designations and dates have heretofore been filed with the Securities and Exchange Commission under such designations and are hereby incorporated by reference.

** In accordance with Item 601(b)(4)(iii)(A) of Federal Securities Regulation S-K, the instrument defining the debt of the Registrant and its subsidiary, described above, has been omitted but will be furnished to the Commission upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Unitil Corporation

Date February 12, 2008   By /s/ Robert G. Schoenberger
Robert G. Schoenberger
Chairman of the Board of Directors,
Chief Executive Officer and
President

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Robert G. Schoenberger Robert G. Schoenberger	Principal Executive Officer; Director	February 12, 2008
/s/ Mark H. Collin Mark H. Collin	Principal Financial Officer	February 12, 2008
/s/ Laurence M. Brock Laurence M. Brock	Principal Accounting Officer	February 12, 2008
/s/ Michael J. Dalton Michael J. Dalton	Director	February 12, 2008
/s/ Albert H. Elfner, III Albert H. Elfner, III	Director	February 12, 2008
/s/ M. Brian O'Shaughnessy M. Brian O'Shaughnessy	Director	February 12, 2008
/s/ Charles H. Tenney, III Charles H. Tenney, III	Director	February 12, 2008
/s/ Dr. Sarah P. Voll Dr. Sarah P. Voll	Director	February 12, 2008
/s/.Eben S. Moulton Eben S. Moulton	Director	February 12, 2008
/s/ David P. Brownell David P. Brownell	Director	February 12, 2008
/s/ Edward F. Godfrey Edward F. Godfrey	Director	February 12, 2008
/s/ Michael B. Green Michael B. Green	Director	February 12, 2008
/s/ Dr. Robert V. Antonucci Dr. Robert V. Antonucci	Director	February 12, 2008

Exhibit 11.1

UNITIL CORPORATION

COMPUTATION IN SUPPORT OF EARNINGS PER SHARE

	Year Ended December 31,		
	2007	2006	2005
EARNINGS PER SHARE (000's, except per share data)			
Net Income	**$ 8,746**	$ 8,033	$ 8,553
Less: Dividend Requirements on Preferred Stock	**136**	133	156
Net Income Applicable to Common Stock	**$ 8,610**	$ 7,900	$ 8,397
Average Number of Common Shares Outstanding - Basic	**5,659**	5,597	5,551
Dilutive Effect of Stock Options and Restricted Stock	**13**	15	17
Average Number of Common Shares Outstanding - Diluted	**5,672**	5,612	5,568
Earnings Per Share - Basic	**$ 1.52**	$ 1.41	$ 1.51
Earnings Per Share - Diluted	**$ 1.52**	$ 1.41	$ 1.51

Exhibit 12.1

UNITIL CORPORATION

COMPUTATION IN SUPPORT OF RATIO OF EARNINGS TO FIXED CHARGES

	Year Ended December 31,				
	2007	2006	2005	2004	2003
(000’s, except ratios)					
Earnings:					
Net Income, per Consolidated Statement of Earnings	**$ 8,746**	$ 8,033	$ 8,553	$ 8,226	$ 7,958
Federal and State Income Taxes included in Operations	**4,482**	4,266	4,275	4,206	3,551
Interest on Long-Term Debt	**10,919**	9,404	8,319	8,394	8,088
Amortization of Debt Discount Expense	**136**	112	104	98	82
Other Interest	**1,949**	1,675	1,046	629	1,070
Total	**$ 26,232**	$ 23,490	$ 22,297	$ 21,553	$ 20,749
Fixed Charges:					
Interest of Long-Term Debt	**$ 10,919**	$ 9,404	$ 8,319	$ 8,394	$ 8,088
Amortization of Debt Discount Expense	**136**	112	104	98	82
Other Interest	**1,949**	1,675	1,046	629	1,070
Pre-tax Preferred Stock Dividend Requirements	**213**	208	234	325	391
Total	**$ 13,217**	$ 11,399	$ 9,703	$ 9,446	$ 9,631
Ratio of Earnings to Fixed Charges	**1.98**	2.06	2.30	2.28	2.15

Exhibit 21.1

Subsidiaries of Registrant

The Company or the registrant has six wholly-owned subsidiaries, five of which are corporations organized under the laws of the State of New Hampshire: Unitil Energy Systems, Inc., Unitil Power Corp., Unitil Realty Corp., Unitil Resources, Inc. and Unitil Service Corp. The sixth, Fitchburg Gas and Electric Light Company, is organized under the laws of the State of Massachusetts. Usource, Inc., which is a corporation organized under the laws of the State of Delaware, is a wholly-owned subsidiary of Unitil Resources, Inc. Usource, Inc. is the sole member of Usource L.L.C., which is a corporation organized under the laws of the State of Delaware.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference of our report dated February 8, 2008, accompanying the December 31, 2007, 2006 and 2005 consolidated financial statements relating to the financial statements of Unitil Corporation and subsidiaries (the Company) and the effectiveness of the Company's internal control over financial reporting, included in the Annual Report of the Company on Form 10-K for the year ended December 31, 2007 in the Registration Statements of the Company on Form S-8 (File No. 333-114978 effective April 29, 2004), Form S-3 (File No. 333-42264 effective July 26, 2000) and on Form S-8 (File No. 333-42266 effective July 26, 2000).

/s/ Vitale, Caturano & Company Ltd.

Boston, Massachusetts
February 8, 2008

Exhibit 31.1

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert G. Schoenberger, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2008

/s/ Robert G. Schoenberger

Robert G. Schoenberger
Chief Executive Officer and President

Exhibit 31.2

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark H. Collin, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2008

/s/ Mark H. Collin

Mark H. Collin
Chief Financial Officer

Exhibit 31.3

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Laurence M. Brock, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2008

/s/ Laurence M. Brock

Laurence M. Brock
Chief Accounting Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Unitil Corporation (the "Company") on Form 10-K for the year ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned Robert G. Schoenberger, Chief Executive Officer and President, Mark H. Collin, Chief Financial Officer and Laurence M. Brock, Chief Accounting Officer, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Signature	Capacity	Date
/s/ Robert G. Schoenberger Robert G. Schoenberger	Chief Executive Officer and President	February 12, 2008
/s/ Mark H. Collin Mark H. Collin	Chief Financial Officer	February 12, 2008
/s/ Laurence M. Brock Laurence M. Brock	Chief Accounting Officer	February 12, 2008

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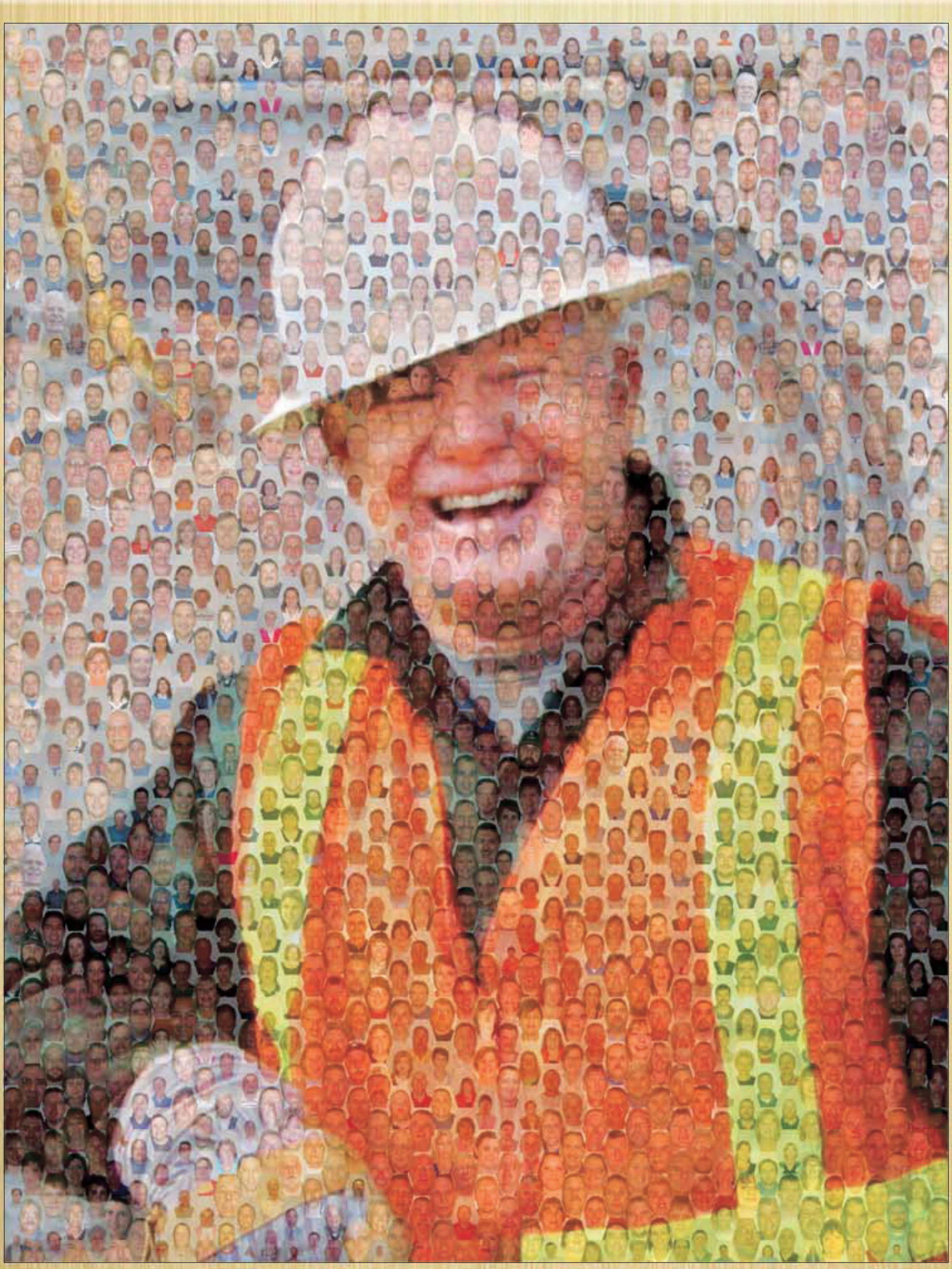
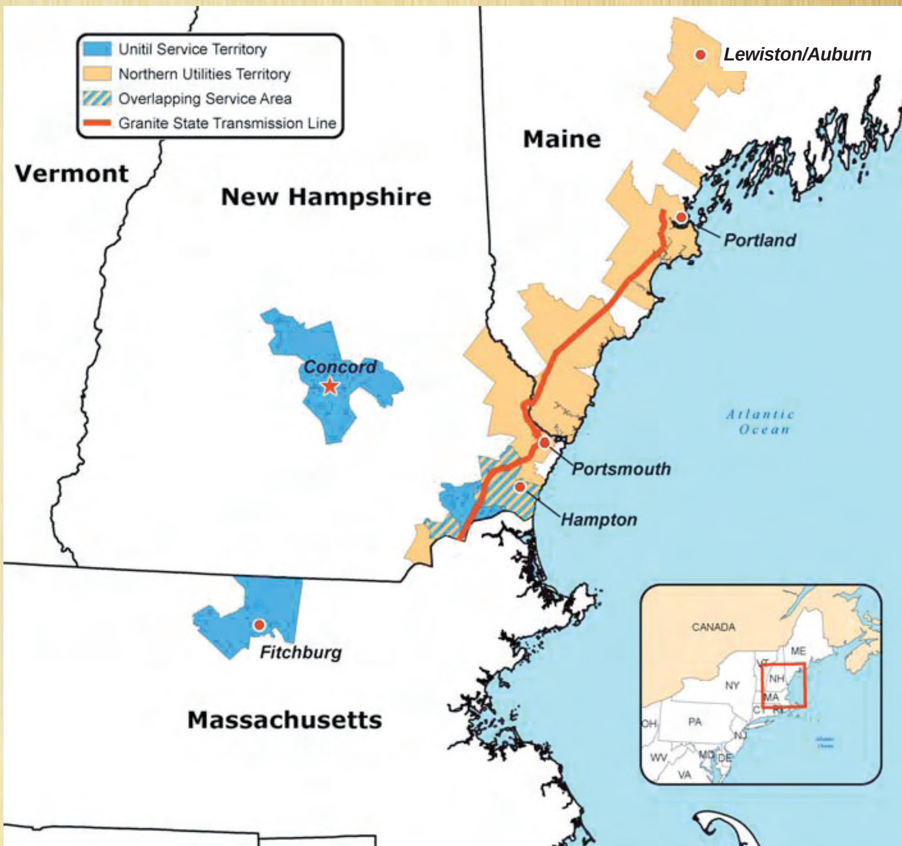


It's Our Employees.

Unitil

Annual Report 2008

Unitil Distribution Service Territories

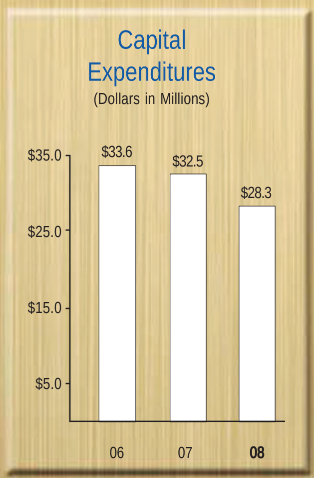


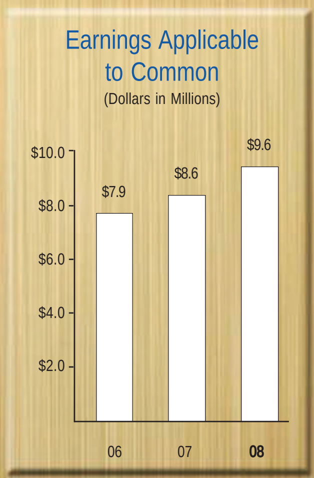
About the Company

Unitil (NYSE: UTL) is a public utility holding company with utility subsidiaries providing electric and gas service in New Hampshire and Massachusetts and gas service in Maine. Unitil has approximately 430 employees and serves approximately 170,000 customers. Its utility subsidiaries include Unitil Energy Systems, Inc., Fitchburg Gas and Electric Light Company, Northern Utilities, Inc., and Granite State Gas Transmission, Inc. Its other main subsidiaries include Unitil Service Corp. and its non-regulated business segment doing business as Usource.

Financial Highlights*

		2008		2007		2006
Financial Data (Millions)						
Total Operating Revenues	**$**	**288.2**	$	262.9	$	260.9
Total Operating Income	**$**	**20.5**	$	18.5	$	15.8
Earnings Applicable to Common	**$**	**9.6**	$	8.6	$	7.9
Capital Expenditures	**$**	**28.3**	$	32.5	$	33.6
Common Share Data						
Diluted Earnings per Share	**$**	**1.65**	$	1.52	$	1.41
Dividends Paid per Common Share	**$**	**1.38**	$	1.38	$	1.38
Book Value per Share (Year-end)	**$**	**17.90**	$	17.50	$	17.30
Market Price (Year-end)	**$**	**20.65**	$	28.51	$	25.35
Average Common Shares Outstanding (000's)		**5,830**		5,672		5,612
Operating Data						
Electric Distribution Sales (Millions of kWh)		**1,695.9**		1,743.0		1,751.5
Firm Gas Distribution Sales (Millions of therms)		**47.2**		28.4		26.4
Customers Served (Year-end)		**169,602**		115,016		114,387





** Financial Highlights reflect the acquisition on December 1, 2008, of Northern Utilities, Inc. and Granite State Gas Transmission, Inc.*

To Our Shareholders

2008 was a transformative year for your Company, culminating with the acquisition of Northern Utilities and Granite State Gas Transmission from NiSource. The transaction was a few years in the making and capitalized on our steady resolve and prudent pursuit of this attractive opportunity.

The acquisition nearly doubles the size of the Company, increasing our customer base to about 170,000 and diversifying our revenues and earnings between electric and gas operations. We now operate in the states of Maine, Massachusetts, and New Hampshire, and are uniquely positioned to seek new opportunities to expand on this electric and gas combination utility platform.

We closed on the acquisition on December 1, which allowed us to count the benefits of one month of the gas heating season in our 2008 gas sales margin. Notably, we secured regulatory approvals of the acquisition in three states in just eight months. We were also successful in putting together a credit-worthy acquisition financing in the most challenging financial market in generations.

We are well on our way to integrating these new operating subsidiaries into your Company. Since the acquisition is essentially a carve out of operating divisions of a larger Company, we are expanding our own capabilities – including the hiring of 65 new employees – to provide centralized administrative and professional services for these new operating subsidiaries through our shared utility services model. We will complete the transition of all major systems, including customer information, financial services and gas operations, in the first half of 2009. We expect to realize significant synergies of $5.6 million per year from this combination.

The acquisition has already produced benefits. In 2008 net income increased by 12% to a record $9.6 million over $8.6 million in 2007. Earnings per share increased to $1.65, $0.13 higher than last year, including the benefit of higher gas sales margins, due to the acquisitions. The Company paid annual dividends of $1.38, representing a continuous payment of quarterly dividends since Unitil was formed in 1985. We achieved these results in the most challenging economic environment that we have seen in a long time.

The acquisition and integration of these new utility subsidiaries into your Company has been a major challenge. Our employees have risen to this challenge and made extraordinary efforts in managing the complex and rigorous details associated with the acquisition, while continuing to provide high-quality operations and customer service for our existing utility business.

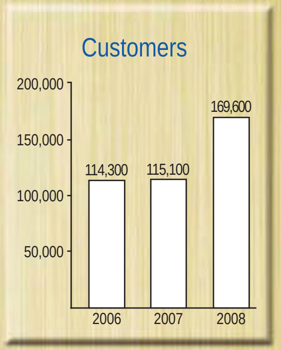
In the midst of all these activities, the New England region was hit by a major ice storm on the evening of December 11, 2008. The storm was a region-wide event with the worst-hit areas concentrated in our Fitchburg franchise area and southern and western New Hampshire. At the height of the storm, two-thirds of our customers were out of service. Crews from as far away as Tennessee, Ohio, and Michigan were brought in to help restore power. This was a very difficult time for the Company and its employees, our communities, and our customers, as it took 14 days for us to completely restore power. Power restoration times for utilities in the region ranged from 10 days to 21 days. The cost of the storm restoration effort is estimated at $10 million.

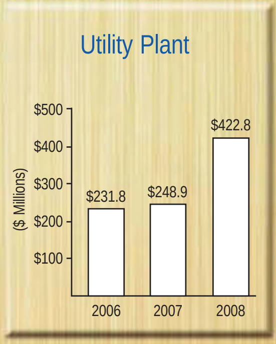
We initiated an internal self-assessment of our response to the storm and will participate in regulatory reviews of utility responses, with the goal of improving our own emergency preparedness and response effectiveness.

We honor our employees and the utility lineworkers who performed so tirelessly in restoring power to our customers by including their photos in the image on the front cover of this Annual Report.

The Economy

The national and global economies face the most challenging environment we have seen in generations. The bursting of the credit bubble – which reversed a decade of people living beyond their means on borrowed money – has led to a severe contraction in the

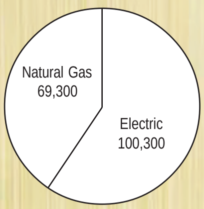




demand for goods and services.

Economists do not agree on what comes next. The optimists see a recovery beginning in the second half of 2009. The pessimists see a prolonged economic slump, some even comparing it to Japan's lost decade in the 1990s. Governments worldwide are attempting to stimulate their economies with massive stimulus packages and a partial or complete nationalization of their banking systems. These are clearly unprecedented times.

Customers by Type



2008

In this environment, your Company is planning for an economic downturn lasting through 2010. We are budgeting operating and capital expenses accordingly. The previously discussed acquisition synergies will be an immense help towards managing our spending.

We have seen decreases in electric consumption in each of the last three years, due to high energy prices and the resulting conservation efforts of consumers. Offsetting this trend is an increase in the use of natural gas for heating and other purposes. We plan to pursue the expansion of natural gas usage in our territories, an initiative which is actively supported by current public policy and is being welcomed by our communities.

The major risk of a prolonged economic downturn is in the commercial and industrial sectors. Thus far we have seen these sectors holding their own.

Access to Capital

One of the major business challenges today is access to credit. The good news is that your Company has demonstrated an ability to access short-term and long-term capital to meet its requirements. As a general rule, regulated utilities are seen as good credit and low-risk borrowers. Our proven access to capital markets, combined with our strong operating cash flow, provide us with the liquidity necessary to run the business. We constantly monitor the credit markets, as well as manage the use of cash to ensure continuing access to capital in these difficult times.

Debt and equity capital markets have largely been closed to many businesses. In 2008, we successfully raised $90 million in private placement debt at competitive fixed interest rates and raised $45 million in new equity to finance the acquisition of Northern Utilities and Granite State Gas Transmission.

We were particularly pleased with the issuance of 2.3 million new shares last December, as we were one of only a few companies able to access the equity markets in the last quarter of 2008. We anticipate completing a follow-on equity offering to finish the acquisition financing in 2009. We believe the results we reported for 2008 highlight the anticipated benefits of our acquisition.

The Way Forward

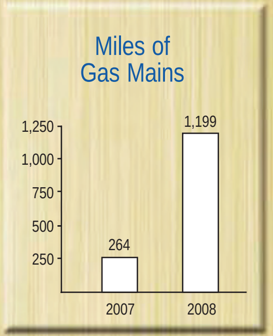
The Chinese word for crisis, wei-ji (危机), is composed of the two characters meaning danger and opportunity. It is an apt word to describe the environment we operate in today. As we have done in the past, we will weather the current economic downturn by concentrating on the following strategies:

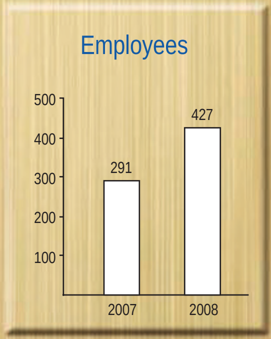
1. Seek to expand the use of natural gas in each of our franchise territories. The penetration rate in the New England region is only about 35%, thereby giving us the opportunity to increase gas sales. The demand for conversion to natural gas in each of our territories has been strong, particularly in the Northern Utilities service territory.

2. Implement a regulatory strategy to move towards a revenue decoupling model which will separate our revenues from gas and electric sales. This would eliminate the disincentive for our companies to promote conservation and energy efficiency actively without having to sacrifice our financial stability. In a nut shell, revenue decoupling works by adjusting the actual sales volumes to the weather-normalized sales volumes approved during the last rate case. When sales volumes deviate from the level forecasted in the rate case, the true-up mechanism makes a modest adjustment to the distribution charge, which gives the utility an opportunity to recover its authorized fixed costs, regardless of fluctuations in energy use. The transition towards this new revenue model will start in Massachusetts in 2009. We hope to make similar transitions in New Hampshire and Maine over the next few years. This will allow us to continue to have diversified and more stable revenue growth in the years ahead and to take a lead in the promotion of conservation efforts and the efficient use of energy by our customers.

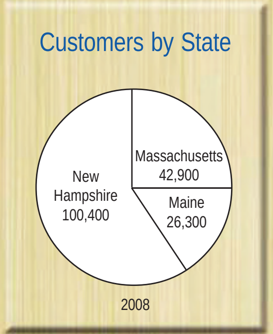
3. Continue the evolution toward a 21st century distribution utility model, gradually incorporating distributed and smart grid technologies. We now have the opportunity to make utility investments in certain types of alternative and distributed technologies in Massachusetts and New Hampshire. While this will be a gradual evolution, we believe it is the future for local distribution utility companies.

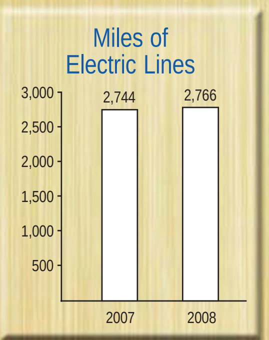
4. Redouble our commitment to be a customer-focused organization. The reaction of some of our customers to our response in last December's ice storm shows we have work to do. While our employees performed heroically, we need to improve our emergency pre-





paredness and response efforts, including how we communicate with our customers. We have already begun this effort, and we will be a stronger Company as a result.





Conclusion

2008 was a transformative year for your Company. We achieved a long-desired strategic objective of growing through acquisitions, significantly increasing our utility assets and customer base. The acquisition of Northern Utilities and Granite State Gas Transmission will help diversify our revenue and earnings and will provide significant benefits to our customers, shareholders, and employees. The acquisition puts us in a good position to expand on this proven platform.

But challenges abound. Uncertain economic prospects require us to plan for a prolonged economic slowdown. We are prepared to do what is necessary to achieve our goal of increasing earnings per share 3% to 5% per year, even in these uncertain times.

For their extraordinary efforts throughout 2008, I want to thank all of our employees. They are among the best in our industry. That we are attracting first-class talent to help grow your Company underscores the fact that the Company is seen as an excellent place to work. We are all committed to being a customer-focused organization.

I also want to thank you, our shareholders, for your continued investment in, and support of, Unitil management and its employees.

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

March 4, 2009

This Annual Report contains forward-looking statements, which are subject to the inherent uncertainties in predicting future results and conditions. All statements, other than statements of historical fact, are forward-looking statements. Certain factors that could cause the actual results to differ materially from those projected in these forward-looking statements include, but are not limited to the following: variations in weather; changes in the regulatory environment; customers' preferences on energy sources; general economic conditions; increased competition; fluctuations in supply, demand, transmission capacity, and prices for energy commodities; and other uncertainties, all of which are difficult to predict, and many of which are beyond the control of Unitil Corporation.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-8858

UNITIL CORPORATION
(Exact name of registrant as specified in its charter)

New Hampshire	**02-0381573**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6 Liberty Lane West, Hampton, New Hampshire	**03842-1720**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (603) 772-0775

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, No Par Value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Based on the closing price of June 30, 2008, the aggregate market value of common stock held by non-affiliates of the registrant was $148,801,666.

The number of common shares outstanding of the registrant was 8,095,724 as of February 17, 2009.

Documents Incorporated by Reference:

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 16, 2009 are incorporated by reference into Part III of this Report

UNITIL CORPORATION
FORM 10-K
For the Fiscal Year Ended December 31, 2008
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PART I

Item 1. Business

UNITIL CORPORATION

Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil was incorporated under the laws of the State of New Hampshire in 1984. The following companies are wholly owned subsidiaries of Unitil:

Company Name	State and Year of Organization	Principal Business
Unitil Energy Systems, Inc. (Unitil Energy)	NH - 1901	Electric Distribution Utility
Fitchburg Gas and Electric Light Company (Fitchburg)	MA - 1852	Electric & Gas Distribution Utility
Northern Utilities, Inc. (Northern Utilities)	NH - 1979	Natural Gas Distribution Utility
Granite State Gas Transmission, Inc. (Granite State)	NH - 1955	Natural Gas Transmission Pipeline
Unitil Power Corp. (Unitil Power)	NH - 1984	Wholesale Electric Power Utility
Unitil Service Corp. (Unitil Service)	NH - 1984	Utility Service Company
Unitil Realty Corp. (Unitil Realty)	NH - 1986	Real Estate Management
Unitil Resources, Inc. (Unitil Resources)	NH - 1993	Non-regulated Energy Services
Usource Inc. and Usource L.L.C. (Usource)	DE - 2000	Energy Brokering and Advisory Services

Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005.

On December 1, 2008, the Company purchased: (i) all of the outstanding capital stock of Northern Utilities, a natural gas distribution utility serving customers in Maine and New Hampshire, originally founded as Portland Gas Light Company in 1849, from Bay State Gas Company (Bay State) and (ii) all of the outstanding capital stock of Granite State, an interstate natural gas transmission pipeline company primarily serving the needs of Northern Utilities, from NiSource Inc. (NiSource) pursuant to the Stock Purchase Agreement dated as of February 15, 2008 by and among NiSource, Bay State, and Unitil (the Acquisitions). Bay State is a wholly owned subsidiary of NiSource. The aggregate purchase price for the Acquisitions was $160 million in cash, plus an additional working capital adjustment of $49.2 million, including approximately $30.0 million of natural gas storage inventory. To finance the Acquisitions and recapitalize Northern Utilities and Granite State, the Company issued additional equity and debt (see "Liquidity, Commitments and Capital Requirements" section in Part II, Item 7 below).

Unitil's principal business is the local distribution of electricity and natural gas throughout its service territory in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three wholly owned distribution utilities: i) Unitil Energy, which provides electric service in the southeastern seacoast and state capital regions of New Hampshire, including the city of Concord, New Hampshire, ii) Fitchburg, which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts, and iii) Northern Utilities, which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine, including the city of Portland and the Lewiston-Auburn area. In addition, Unitil is the parent company of Granite State, an interstate natural gas transmission pipeline company that principally provides interstate natural gas pipeline access and transportation services to Northern Utilities in its New Hampshire and Maine service territory. Together, Unitil's three distribution utilities serve approximately 100,300 electric customers and 69,300 natural gas customers.

Unitil's distribution utilities are local "pipes and wires" operating companies and, combined with Granite State, had an investment in net utility plant of $422.8 million at December 31, 2008. Unitil's total revenue was $288.2 million in 2008. Earnings applicable to common shareholders for 2008 was $9.6 million. Substantially all of Unitil's revenue and earnings are derived from regulated utility operations.

A fifth utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for Unitil Energy. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of Unitil Energy on May 1, 2003 and divested of substantially all of its long-term power supply contracts through the sale of the entitlements to the electricity associated with those contracts.

Unitil also has three other wholly owned subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and energy supply management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company's corporate office in Hampton, New Hampshire. Unitil Resources is the Company's wholly owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are indirect subsidiaries that are wholly owned by Unitil Resources. Usource provides energy brokering and advisory services to large commercial and industrial customers in the northeastern United States.

OPERATIONS

Electric Distribution Utility Operations

Unitil's electric utility operations are conducted through two of the Company's distribution utilities, Unitil Energy and Fitchburg. Revenue from Unitil's electric utility operations was $227.5 million for 2008. Earnings from electric utility operations were $5.2 million for the same 12-month period.

The primary business of Unitil's electric utility operations is the local distribution of electricity to customers in its service territory in New Hampshire and Massachusetts. As a result of the implementation of choice in New Hampshire and Massachusetts, Unitil's customers are free to contract for their supply of electricity with third-party suppliers. The distribution utilities continue to deliver that supply of electricity over their distribution systems. Both Unitil Energy and Fitchburg supply electricity to those customers who do not obtain their supply from third-party suppliers, with the costs associated with electricity supplied by the distribution utilities being recovered on a pass-through basis under periodically-adjusted rates.

Unitil Energy distributes electricity to approximately 72,500 customers in New Hampshire in the capital city of Concord as well as parts of 12 surrounding towns and all or part of 18 towns in the southeastern and seacoast regions of New Hampshire, including the towns of Hampton, Exeter, Atkinson and Plaistow. Unitil Energy's service territory consists of approximately 408 square miles. In addition, Unitil Energy's service territory encompasses retail trading and recreation centers for the central and southeastern parts and includes the Hampton Beach recreational area. These areas serve diversified commercial and industrial businesses, including manufacturing firms engaged in the production of electronic components, wires and plastics, healthcare and education. Unitil Energy's 2008 electric operating revenue was $161.0 million, of which approximately 49.0% was derived from residential sales and 51.0% from commercial/industrial sales.

Fitchburg is engaged in the distribution of both electricity and natural gas in the city of Fitchburg and several surrounding communities. Fitchburg's service territory encompasses approximately 170 square miles. Electricity is supplied and distributed by Fitchburg to approximately 27,800 customers in the communities of Fitchburg, Ashby, Townsend and Lunenburg. Fitchburg's industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries and education. Fitchburg's 2008 electric operating revenue was $66.5 million, of which approximately 54.0% was derived from residential sales and 46.0% from commercial/industrial sales.

Gas Operations

Unitil's Gas Operations include gas distribution utility operations and gas transportation pipeline company operations, discussed below. Revenue from Unitil's gas operations was $56.9 million for 2008. Earnings from gas operations were $4.3 million for the same 12-month period. In 2008, the Company significantly expanded its gas operations by acquiring Northern Utilities and Granite State on December 1, 2008.

Gas Distribution Utility Operations

Unitil's natural gas utility operations are conducted through two of the Company's distribution utilities, Northern Utilities and Fitchburg. The primary business of Unitil's natural gas distribution utility operations is the local distribution of natural gas to customers in its service territory in New Hampshire, Massachusetts and Maine. As a result of a restructuring of the gas utility industry in New Hampshire, Massachusetts and Maine, Fitchburg's residential and commercial and industrial (C&I) customers and Northern Utilities' C&I customers have the opportunity to purchase their natural gas supplies from third party vendors. Most customers, however, continue to purchase such supplies through Northern Utilities and Fitchburg as the provider of last resort. Northern Utilities and Fitchburg purchase natural gas from unaffiliated wholesale suppliers and recover the actual costs of these supplies on a pass-through basis through reconciling rate mechanisms that are periodically adjusted.

Natural gas is supplied and distributed by Northern Utilities to approximately 54,200 customers in 44 New Hampshire and southern Maine communities, from Plaistow, New Hampshire in the south to the city of Portland, Maine and then extending to Lewiston-Auburn, Maine in the north. Northern Utilities has a diversified customer base both in Maine and New Hampshire. Commercial businesses include healthcare, education, government and retail. Northern Utilities' industrial base includes manufacturers in the industries of auto, housing, rubber, printing, textile, pharmaceutical, electronics, wires and food production as well as a military installation. Northern Utilities 2008 gas operating revenue was $19.5 million, of which approximately 35.0% was derived from residential firm sales and 65.0% from commercial/industrial firm sales.

Natural gas is supplied and distributed by Fitchburg to approximately 15,100 customers in the communities of Fitchburg, Lunenburg, Townsend, Ashby, Gardner and Westminster, all located in Massachusetts. Fitchburg's industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries. Fitchburg's 2008 gas operating revenue was $37.0 million, of which approximately 54.0% was derived from residential firm sales and 46.0% from commercial/industrial firm sales.

Gas Transmission Pipeline Company Operations

Granite State is an interstate natural gas transmission pipeline company, operating 87 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north. Granite State had operating revenue of $0.4 million for 2008. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and, to a lesser extent, third-party marketers.

Seasonality

Natural gas sales in New England are seasonal, and our results of operations reflect this seasonal nature. In particular, the Company expects that consolidated results of operations in future reporting periods will reflect to a greater degree the seasonal nature of natural gas sales by Northern Utilities, which was acquired by the Company on December 1, 2008. Accordingly, the Company expects that as a result of the Acquisitions consolidated results of operations will be positively affected during the first and fourth quarters, and negatively affected during the second and third quarters of future reporting years.

Electric sales in New England are far less seasonal than natural gas sales; however, the highest usage typically occurs in both the summer months due to air conditioning demand and the winter months due to heating-related requirements and shorter daylight hours. Unitil Energy, Fitchburg and Northern Utilities are not dependent on a single customer or a few customers for their electric and natural gas sales.

Non-regulated and Other Non-Utility Operations

Unitil's non-regulated operations are conducted through Usource, a subsidiary of Unitil Resources. Usource provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Revenue from Unitil's non-regulated operations was $3.8 million in 2008. Earnings from Unitil's non-regulated operations were $0.3 million in 2008.

The results of Unitil's other non-utility subsidiaries, Unitil Service and Unitil Realty, and the holding company are included in the Company's consolidated results of operations. The results of these non-utility operations are principally derived from income earned on short-term investments and real property owned for Unitil's and its subsidiaries' use and are reported in Other segment income (for segment information, see Part II, Item 8, Note 11 herein). Unitil's other non-utility operations recognized a net loss of ($0.2) million in 2008.

(For details on Unitil's Results of Operations, see Part II, Item 7 herein.)

RATES AND REGULATION

Unitil is subject to comprehensive regulation by federal and state regulatory authorities. Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 with regard to certain bookkeeping, accounting and reporting requirements. Unitil's utility operations related to wholesale and interstate energy business activities are also regulated by FERC. Unitil's distribution utilities are subject to regulation by the applicable state public utility commissions, with regard to their rates, issuance of securities and other accounting and operational matters: Unitil Energy is subject to regulation by the New Hampshire Public Utilities Commission (NHPUC); Fitchburg is subject to regulation by the Massachusetts Department of Public Utilities (MDPU); and Northern Utilities is regulated by the NHPUC and Maine Public Utilities Commission (MPUC). Because Unitil's primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company's operations and financial position.

Unitil's distribution utilities deliver electricity and/or natural gas to all customers in their service territory, at rates established under traditional cost of service regulation. Under this regulatory structure, Unitil's distribution utilities recover the cost of providing distribution service to their customers based on a historical test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in New Hampshire, Massachusetts and Maine, Unitil's customers have the opportunity to purchase their electricity or natural gas supplies from third party vendors. Most customers, however, continue to purchase such supplies through the distribution utilities. Unitil's distribution utilities purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual costs of these supplies on a pass-through basis, as well as certain costs associated with industry restructuring, through reconciling rate mechanisms that are periodically adjusted.

The regulatory process in both New Hampshire and Maine, in connection with those states' approvals of the Acquisitions, included the negotiation and filing of settlement agreements reflecting commitments by Unitil with respect to Northern Utilities' rates, customer service and operations. The settlement agreements were separately negotiated and filed in each state but reflect a number of common features.

Also see Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters and Note 7 to the accompanying Consolidated Financial Statements for additional information on Regulatory Matters.

ELECTRIC POWER SUPPLY

The transition to retail choice required the divestiture of Unitil's power supply arrangements and the procurement of replacement supplies, which provided the flexibility for migration of customers to and from utility service. Fitchburg, Unitil Energy, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the ISO New England, Inc. (ISO-NE) markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve Unitil's customers.

As a result of restructuring of the electric utility industry in Massachusetts and New Hampshire, Unitil's customers in both New Hampshire and Massachusetts have the opportunity to purchase their electric supply from competitive suppliers. Retail choice has been successful for Unitil's largest customers. As of December 2008, 82 or 55% of Unitil's largest New Hampshire customers representing 18% of total New Hampshire electric sales and 27 or 84% of Unitil's largest Massachusetts customers representing 35%

of total Massachusetts electric sales are purchasing their electric power supply in the competitive market. However, most residential and small commercial customers continue to purchase their electric supply through Unitil's distribution utilities. The concentration of the competitive market on higher use customers has been a common experience throughout the New England electricity market.

Regulated Electric Power Supply

In order to provide regulated electric supply service to their customers, Unitil's distribution utilities enter into load-following wholesale electric power supply contracts with various wholesale suppliers.

Fitchburg has power supply contracts with various wholesale suppliers for the provision of Basic Service energy supply. MDPU policy dictates the pricing structure and duration of each of these contracts. Currently, all Basic Service power supply contracts for large general accounts are three months in duration and provide 100% of supply requirements. Basic Service power supply contracts for residential and small and medium general service customers are acquired every six months, are 12 months in duration and provide 50% of the supply requirements.

Unitil Energy currently has power supply contracts with various wholesale suppliers for the provision of Default Service to its customers. Unitil Energy procures Default Service supply for its large general service accounts through competitive solicitations for power contracts of three months in duration for 100% of supply requirements. Unitil Energy procures Default Service supply for its other customers through a series of two one-year contracts and two three-year contracts, each providing 25% of the total supply requirements of the group.

The NHPUC and MDPU regularly investigate alternatives to their procurement policy, which may lead to future changes in this procurement structure.

Regional Electric Transmission and Power Markets

Fitchburg, Unitil Energy and Unitil Power, as well as virtually all New England electric utilities, are participants in the ISO-NE markets. ISO-NE is the Regional Transmission Organization (RTO) in New England. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economic manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. The ISO-NE tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric marketplace.

Electric Power Supply Divestiture

Prior to May 1, 2003, Unitil Energy purchased all of its power supply from Unitil Power under the Unitil System Agreement, a FERC-regulated tariff, which provided for the recovery of all of Unitil Power's power supply-related costs on a cost pass-through basis. Effective May 1, 2003, Unitil Energy and Unitil Power amended the Unitil System Agreement, such that power sales from Unitil Power to Unitil Energy ceased, and Unitil Power sold substantially all of its entitlements under the remaining portfolio of power supply contracts. Under the amended Unitil System Agreement, Unitil Energy continues to pay contract release payments to Unitil Power for stranded costs associated with the portfolio sale and its other ongoing power supply-related costs. In connection with the implementation of retail choice, Unitil Power and Fitchburg divested substantially all of their long-term power supply contracts and interests in generation assets through the sale of the interest in those assets or the sale of the entitlements to the electricity provided by those generation assets and long-term power supply contracts.

Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets.

Unitil's distribution utilities have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

Also see Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters and Note 6 to the accompanying Consolidated Financial Statements for additional information on Electric Power Supply.

NATURAL GAS SUPPLY

With the purchase of Northern Utilities on December 1, 2008, Unitil now manages gas supply for customers served by Northern Utilities in Maine and New Hampshire as well as customers served by Fitchburg in Massachusetts.

Fitchburg's residential and C&I customers have the opportunity to purchase their natural gas supply from third-party vendors, although most of Fitchburg's customers continue to purchase such supplies at regulated rates from Fitchburg. Northern Utilities' C&I natural gas customers have the opportunity to purchase their natural gas supply from third-party vendors, and third-party supply is prevalent among Northern Utilities' larger C&I customers. Most small C&I customers, as well as all residential customers, purchase their gas supply at regulated rates from Northern Utilities as the provider of last resort. The costs associated with the acquisition of such wholesale natural gas supplies for customers who do not contract with third-party suppliers are recovered on a pass-through basis through periodically-adjusted rates and are included in Purchased Gas in the Consolidated Statements of Earnings.

Regulated Natural Gas Supply

Fitchburg purchases natural gas under contracts of one year or less, as well as from producers and marketers on the spot market. Fitchburg arranges for gas delivery to its city gate station or underground storage through its own long-term contracts with Tennessee Gas Pipeline. Fitchburg's gas supply is delivered to the city gate station or in the case of liquefied natural gas (LNG) or liquefied propane gas (LPG), by truck to each storage facility within Fitchburg's service territory.

Fitchburg has available under firm contract 14,057 MMbtu per day of year-round and seasonal transportation and underground storage capacity to its distribution facilities. As a supplement to pipeline natural gas, Fitchburg owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

Northern Utilities purchases a majority of its natural gas from U.S. domestic and Canadian suppliers under contracts of one year or less, and on occasion from producers and marketers on the spot market. Northern Utilities arranges for gas delivery to its city gate station or underground storage through its own long-term contracts with various interstate pipeline and storage facilities, or through peaking supply contracts delivered to its city gate station. Northern Utilities gas supply is delivered to its city gate stations or in the case of LNG or LPG, by truck to each storage facility within Northern Utilities' service territory.

Northern Utilities has available under firm contract 100,000 MMbtu per day of year-round and seasonal transportation capacity to its distribution facilities, and 3.4 Bcf of underground storage. As a supplement to pipeline natural gas, Northern Utilities owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

Also see Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters and Note 6 to the accompanying Consolidated Financial Statements for additional information on Natural Gas Supply.

ENVIRONMENTAL MATTERS

Unitil's past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. The Company believes it is in compliance with applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2008, there were no material losses reasonably likely to be incurred in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Fitchburg's Manufactured Gas Plant Site—Fitchburg continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. Fitchburg has proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection, which allows Fitchburg to work towards temporary closure of the site. A status of temporary closure requires Fitchburg to monitor the site until a feasible permanent remediation alternative can be developed and completed. Also, see Note 7 for additional discussion of Fitchburg's regulatory and environmental matters.

Fitchburg recovers the environmental response costs incurred at this former MGP site not recovered by insurance or other means in gas rates pursuant to terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, Fitchburg is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs. In addition, Fitchburg has filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. Any recovery that Fitchburg receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between Fitchburg and its gas customers.

Northern Utilities' Manufactured Gas Plant Sites—Northern Utilities has an extensive program to identify, investigate and remediate former MGP sites that were operated from the mid 1800s through the mid 1900s. In New Hampshire, MGP sites were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. This program has also documented the presence of MGP sites in Lewiston and Portland, Maine and a former MGP disposal site in Scarborough, Maine. Northern Utilities has worked with the environmental regulatory agencies in both New Hampshire and Maine to address environmental concerns with these sites.

The NHPUC and MPUC have approved the recovery of MGP environmental costs. For Northern Utilities' New Hampshire division, the NHPUC approved the recovery of MGP environmental costs over a seven-year amortization period. Northern Utilities believes material future costs will be recovered. For Northern Utilities' Maine division, the MPUC authorized the recovery of environmental remediation costs over a rolling five-year amortization schedule.

Also, see Discussion and Analysis of Financial Condition and Results of Operations—Environmental Matters and Note 7 to the accompanying Consolidated Financial Statements for additional information on Environmental Matters.

EMPLOYEES

As of December 31, 2008, the Company and its subsidiaries had 406 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

As of December 31, 2008, 144 of the Company's employees were represented by labor unions. These employees are covered by collective bargaining agreements. Two of these agreements expire on March 31, 2009, two agreements expire on May 31, 2010, and one agreement expires on June 5, 2010. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. The Company expects to successfully negotiate new agreements prior to their expiration dates.

AVAILABLE INFORMATION

The Company's Internet address is www.unitil.com. There, the Company makes available, free of charge, its SEC fillings, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports, as well as amendments to those reports. These reports are made available through the Investors section of Unitil's website via a direct link to the section of the SEC's website which contains Unitil's SEC filings.

The Company's current Code of Ethics was approved by Unitil's Board of Directors on January 15, 2004. This Code of Ethics, along with any amendments or waivers, is also available on Unitil's website.

Unitil's common stock is listed on the New York Stock Exchange under the ticker symbol "UTL."

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table provides information about our directors and senior management as of February 18, 2009:

Name	Age	Position
Robert G. Schoenberger	58	Chairman of the Board, Chief Executive Officer and President
Mark H. Collin	49	Senior Vice President, Chief Financial Officer and Treasurer
Thomas P. Meissner, Jr.	46	Senior Vice President and Chief Operating Officer
Laurence M. Brock	55	Controller and Chief Accounting Officer
Todd R. Black	44	President, Usource
George R. Gantz	57	Senior Vice President, Customer Services and Communications, Unitil Service
George E. Long, Jr.	52	Vice President, Administration, Unitil Service
Raymond J. Morrissey	61	Vice President, Information Systems, Unitil Service
Sandra L. Whitney	45	Corporate Secretary
Dr. Robert V. Antonucci	63	Director
David P. Brownell	65	Director
Michael J. Dalton	68	Director
Albert H. Elfner, III	64	Director
Edward F. Godfrey	59	Director
Michael B. Green	59	Director
Eben S. Moulton	62	Director
M. Brian O'Shaughnessy	65	Director
Charles H. Tenney, III	61	Director
Dr. Sarah P. Voll	66	Director

Robert G. Schoenberger has been Unitil's Chairman of the Board of Directors and Chief Executive Officer since 1997, as well as President since 2003. Prior to his employment with Unitil, Mr. Schoenberger was president and chief operating officer of the New York Power Authority (a state-owned utility operating 6,000 MW of generation and 1,400 miles of high voltage transmission) from 1993 until 1997. Mr. Schoenberger also serves as chairman and trustee of Exeter Health Resources, Exeter, New Hampshire, since 1998, and as a director of SatCon Technology Corporation, Boston, Massachusetts (a company engaged in the development and manufacture of power electronics and control systems) since 2007. Mr. Schoenberger was director of the Greater Seacoast (New Hampshire) United Way from 1998 until 2004, the New England Gas Association from 1999 until 2002 and the Southwest Power Pool from 2003 until 2005.

Mark H. Collin has been Unitil's Senior Vice President and Chief Financial Officer since February 2003. Mr. Collin has also served as Treasurer since 1998. Mr. Collin joined Unitil in 1988, and served as Vice President of Finance from 1995 until 2003.

Thomas P. Meissner, Jr. has been Unitil's Senior Vice President and Chief Operating Officer since June 2005. Mr. Meissner served as Senior Vice President, Operations, from February 2003 until June 2005. Mr. Meissner joined Unitil in 1994 and served as Director of Engineering from 1998 until 2003.

George R. Gantz has been Unitil's Senior Vice President, Customer Services and Communications, Unitil Service, since January 2003. Mr. Gantz joined Unitil in 1983 and served as Senior Vice President, Communication and Regulation, from 1994 until 2003.

Todd R. Black has been President of Usource since June 2003. Mr. Black joined Unitil in 1998 and served as Vice President, Sales and Marketing, for Usource from 1998 until 2003.

Laurence M. Brock has been Unitil's Controller and Chief Accounting Officer since June 2005. Mr. Brock joined Unitil in 1995 as Vice President and Controller, and is a certified public accountant in the state of New Hampshire.

George E. Long, Jr. has been Unitil's Vice President, Administration, Unitil Service, since February 2003. Mr. Long joined Unitil in 1994 and was Director, Human Resources, from 1998 until 2003.

Raymond J. Morrissey has been Unitil's Vice President, Information Systems, Unitil Service, since February 2003. Mr. Morrissey served as Unitil's Vice President of Customer Service from 1992 until 2003, and general manager of Fitchburg from 1991 until 1992. Mr. Morrissey joined Unitil in 1985.

Sandra L. Whitney has been Unitil's Corporate Secretary and secretary of our Board of Directors since February 2003. Ms. Whitney joined Unitil in 1990 and also serves as the Corporate Secretary of Unitil's subsidiary companies.

Dr. Robert V. Antonucci has been a member of Unitil's Board of Directors since 2004. Dr. Antonucci has been the president of Fitchburg State College (FSC) in Fitchburg, Massachusetts, since 2003. Prior to his employment with FSC, Dr. Antonucci was president of the School Group of Riverdeep, Inc., San Francisco, California, from 2001 until 2003 and president and chief executive officer of Harcourt Learning Direct and Harcourt Online College, Chestnut Hill, Massachusetts from 1998 until 2001. Dr. Antonucci also served as the commissioner of education for the Commonwealth of Massachusetts from 1992 until 1998. Dr. Antonucci also serves as a trustee of Eastern Bank (formerly Plymouth (Massachusetts) Savings Bank) since 1988.

David P. Brownell has been a member of Unitil's Board of Directors since 2001. Mr. Brownell has been a retired senior vice president of Tyco International Ltd. (Tyco) (a diversified global manufacturing and service company), Portsmouth, New Hampshire, since 2003. Mr. Brownell had been with Tyco since 1984. Mr. Brownell was also interim president of the University of New Hampshire Foundation (UNHF), former vice chairman of the board of UNHF, former volunteer board president of the United Way of the Greater Seacoast, and a former board member of the New Hampshire Junior Achievement Advisory Council.

Michael J. Dalton has been a member of Unitil's Board of Directors since 1984. Mr. Dalton has been the retired president and chief operating officer of Unitil since 2003. Mr. Dalton has been a member of the Industrial Advisory Board of the University of New Hampshire College of Engineering and Physical Sciences since 2003. Mr. Dalton was a director of the New England Gas Association from 2002 until 2003, the Electric Council of New England, the UNHF, the University of New Hampshire Alumni Association, and the University of New Hampshire President's Council.

Albert H. Elfner, III has been a member of Unitil's Board of Directors since 1999. Mr. Elfner was the chairman of Evergreen Investment Management Company, Boston, Massachusetts, from 1994 until 1999 and its chief executive officer from 1995 until 1999. Mr. Elfner is also a director of NGM Insurance Company (NGM), Jacksonville, Florida, as well as a member of the NGM finance committee.

Edward F. Godfrey has been a member of Unitil's Board of Directors since 2002. Mr. Godfrey was the executive vice president and chief operating officer of Keystone Investments, Incorporated (Keystone), Boston, Massachusetts, from 1997 until 1998. Mr. Godfrey was senior vice president, chief financial officer and treasurer of Keystone from 1988 until 1996. Mr. Godfrey is also a director of VehiCare, LLC, Charlotte, North Carolina, since 2006.

Michael B. Green has been a member of Unitil's Board of Directors since 2001. Mr. Green has been the president and chief executive officer of Capital Region Health Care and Concord Hospital, Concord, New Hampshire, since 1992. Mr. Green is also a member of the adjunct faculty, Dartmouth Medical School, Dartmouth College, Hanover, New Hampshire. In addition, Mr. Green currently serves on the board of the Foundation for Healthy Communities, is a director of the New Hampshire Hospital Association, a director of New Hampshire Business Committee for the Arts, and a director of Merrimack County Savings Bank including membership on the bank's investment and audit committees.

Eben S. Moulton has been a member of Unitil's Board of Directors since 2000. Mr. Moulton has been the managing partner of Seacoast Capital Corporation, Danvers, Massachusetts, (a private investment company) since 1995. Mr. Moulton is also a director of IEC Electronics (a complex circuit boards manufacturer), a director of six private companies, and a trustee of Colorado College, Colorado Springs, Colorado.

M. Brian O'Shaughnessy has been a member of Unitil's Board of Directors since 1998. Mr. O'Shaughnessy has been the chairman of the board of Revere Copper Products, Inc. (Revere), Rome, New York, since 1988. Mr. O'Shaughnessy also served as chief executive officer and president of Revere from 1988 until 2007. Mr. O'Shaughnessy also serves on the Board of Directors of the Coalition for a Prosperous America, three copper industry trade associations, three manufacturing associations in New York State regarding energy-related issues, and the Economic Development Growth Enterprise of Mohawk Valley.

Charles H. Tenney III has been a member of Unitil's Board of Directors since 1992. Mr. Tenney was the director of operations of BrainShift.com, Inc., Medford, Massachusetts (a learning technology development company) from 2002 until 2008. Mr. Tenney is currently a director of The BrainShift Foundation (a non-profit division of BrainShift.com, Inc. engaged in energy conservation). Mr. Tenney also served as a member of the board of overseers of the Huntington Theater Company, Boston, Massachusetts, from 2004 until 2006.

Dr. Sarah P. Voll has been a member of Unitil's Board of Directors since 2003. Dr. Voll has been a retired vice president, National Economic Research Associates, Inc. (NERA), Washington, District of Columbia, a firm of consulting economists specializing in industrial and financial economics, since 2007. Dr. Voll had been with NERA in the position of vice president since 1999, and in the position of senior consultant from 1996 until 1999. Prior to her employment with NERA, Dr. Voll was a staff member at the NHPUC from 1980 until 1996.

INVESTOR INFORMATION

Annual Meeting

The annual meeting of shareholders is scheduled to be held at the offices of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Thursday, April 16, 2009, at 10:30 a.m.

Transfer Agent

The Company's transfer agent, Computershare, is responsible for shareholder records, issuance of common stock, administration of the Dividend Reinvestment and Stock Purchase Plan, and the distribution of Unitil's dividends and IRS Form 1099-DIV. Shareholders may contact Computershare at:

Computershare
P.O. Box 43078
Providence, RI 02940-3078
Telephone: 800-736-3001
www.computershare.com

Investor Relations

For information about the Company, you may call the Company directly, toll-free, at: 800-999-6501 and ask for the Investor Relations Representative; visit the Investor page at www.unitil.com; or contact the transfer agent, Computershare, at the number listed above.

Special Services & Shareholder Programs Available to Holders of Record

If a shareholder's shares of common stock are registered directly in the shareholder's name with the Company's transfer agent, the shareholder is considered a holder of record of the shares. The following services and programs are available to shareholders of record:

- Internet Account Access is available at *www.computershare.com*.
- Dividend Reinvestment and Stock Purchase Plan:

  To enroll, please contact the Company's Investor Relations Representative or Computershare.
- Dividend Direct Deposit Service:

  To enroll, please contact the Company's Investor Relations Representative or Computershare.
- Direct Registration:

  For information, please contact Computershare at 800-935-9330 or the Company's Investor Relations Representative at 800-999-6501.

Item 1A. Risk Factors

Risks Relating to Our Business

Risks related to the regulation of the Company's business could impact the rates it is able to charge, its costs and its profitability.

The Company is subject to comprehensive regulation by federal and state regulatory authorities, which significantly influences the Company's operating environment and its ability to recover costs from its customers. In particular, the Company is regulated by the FERC and state regulatory authorities with jurisdiction over public utilities, including the NHPUC, MDPU and MPUC. These authorities regulate many aspects of the Company's operations, including, but not limited to, construction and maintenance of facilities, operations, safety, issuance of securities, accounting matters, transactions between affiliates, the rates that the Company can charge customers and the rate of return that it is allowed to realize. The Company's ability to obtain rate adjustments to maintain its current rate of return depends upon regulatory action under applicable statutes, rules and regulations, and the Company cannot assure you that it will be able to obtain rate adjustments or continue receiving its current authorized rates of return. These regulatory authorities are also empowered to impose financial penalties and other sanctions on the Company if it is found to have violated statutes and regulations governing its utility operations. The Company is unable to predict the impact on its operating results from the regulatory activities of any of these agencies. Although the Company has attempted to actively manage the rate making process and has had recent success in obtaining rate adjustments, it can offer no assurances as to future success in the rate making process. Despite the Company's requests, these regulatory commissions have authority under applicable statutes, rules and regulations to leave the Company's rates unchanged, grant increases or order decreases in such rates.

The regulators also have authority with respect to the recovery of the Company's electricity and natural gas supply costs incurred by Unitil Energy, Fitchburg, and Northern Utilities. In the event that the Company is unable to recover these costs or recovery of these costs were to be significantly delayed, the Company's operating results could be materially adversely affected. Changes in regulations or the imposition of additional regulations could also have an adverse effect on the Company's operating results.

As a result of electric industry restructuring, the Company has a significant amount of certain stranded electric generation and generation related supply costs.

The stranded costs resulting from the implementation of electric industry restructuring mandated by the states of New Hampshire and Massachusetts are recovered by the Company on a pass-through basis through periodically reconciled rates. Any unrecovered balance of purchased power or stranded costs is deferred for future recovery as a regulatory asset. Such regulatory assets are subject to periodic regulatory review and approval for recovery in future periods.

The Company's power supply portfolio related stranded costs due to the electric industry restructuring in New Hampshire and Massachusetts for which regulatory approval has been obtained for recovery were approximately $33.8 million for Fitchburg and $18.9 million for Unitil Energy as of December 31, 2008, including $8.3 million and $9.8 million for Fitchburg and Unitil Energy, respectively, in Accrued Revenue on the Company's Consolidated Balance Sheet. Additionally, the Company's other restructuring-related regulatory assets for which regulatory approval has been obtained for recovery were approximately $29.1 million in the aggregate as of December 31, 2008, including $4.0 million in Accrued Revenue on the Company's Consolidated Balance Sheet.

Substantially all of Fitchburg's stranded costs relate to owned generation assets and purchase power agreements divested by Fitchburg under a long-term contract buy-out agreement. Unitil Energy's stranded costs are attributable to the long-term power purchase agreements divested by Unitil Power under long-term contract buyout agreements. Because Fitchburg and Unitil Power remain ultimately responsible for purchase power payments underlying these long-term buyout agreements, Fitchburg and Unitil Power could incur additional stranded costs were they required to resell such divested entitlements prior to the end of their term for amounts less than the amounts agreed to under the existing long-term buyout agreements. The Company expects that any such additional stranded costs would be recovered from its customers, although such recovery would require approval from the MDPU or NHPUC, the receipt of which cannot be assured.

The Company's electric and natural gas sales and revenues are highly correlated with the economy, and national, regional and local economic conditions may negatively impact the Company's customers and correspondingly its operating results and financial condition.

The Company's business is influenced by the economic activity of its service territory. The level of economic growth in the Company's electric and natural gas distribution service territory directly affects its potential for future growth in its business. As a result, adverse changes in the economy, including the significant adverse changes in the economy in 2008, may have negative effects on the Company's revenues, operating results and financial condition.

The Company may not be able to obtain debt financing, obtain debt financing on acceptable terms, or obtain debt financing under its current credit facilities because of the deterioration of the credit and capital markets, which could have an adverse affect on the Company's operating results and financial condition.

The Company requires capital to fund utility plant additions, working capital and other utility expenditures. While the capital necessary to meet these requirements is derived primarily from internally-generated funds, the Company initially supplements internally generated funds through short-term debt financings, as needed, and periodically replaces portions of its short-term debt with long-term debt. General economic conditions, including recent distress in the financial markets, have had an adverse impact on the availability of credit resources generally, which could negatively affect the Company's ability to obtain short- and long-term debt financings and the terms of such financings. In addition, the Company may be unable to obtain debt financing under its current credit facilities because its lending counterparties may be unwilling or unable to meet their funding obligations. In each case, this could hinder or prevent the Company from meeting its future capital needs, which could correspondingly have an adverse affect on the Company's operating results and financial condition. In addition, the material terms of the Company's existing indebtedness will also restrict its ability to incur any material amount of additional indebtedness, which could negatively impact its operating results and financial condition. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity, Commitments and Capital Requirements and Note 5 to the accompanying Consolidated Financial Statements.

Declines in the valuation of capital markets could require the Company to make substantial cash contributions to cover its pension obligations, which could negatively impact its financial condition.

On August 17, 2006, the Pension Protection Act of 2006 (the PPA) was signed into law. Included in the PPA are new minimum funding rules which came into effect for plan years beginning in 2008. The funding target will be 100% of a plan's liability with any shortfall amortized over seven years, with lower (92% – 100%) funding targets available to well-funded plans during the transition period provided pursuant to the PPA. Due to the significant declines in the valuation of capital markets during 2008, the Worker, Retiree, and Employer Recovery Act of 2008 (Recovery Act) was signed into law on December 23, 2008. Included in the Recovery Act are temporary modifications to the minimum funding rules set forth in the PPA such that all plans, except those that were subject to deficit reduction contribution requirements in 2007, are allowed to amortize any shortfall from the lower funding targets, rather than the 100% target, for the 2008 – 2010 plan years.

The Company made cash contributions of $2.8 million, $2.8 million and $2.5 million to its pension plan in 2008, 2007 and 2006, respectively, which exceeded minimum funding requirements. Recent and future declines in the valuation of capital markets could require the Company to make cash contributions to its pension plans substantially in excess of its cash contributions in prior years, which could adversely affect its financial condition.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158), which requires companies to record on their balance sheets the funded status of their retirement benefit obligations (RBO). The Company has recognized a liability for the projected RBO of its plans and a corresponding regulatory asset, to recognize the future collection of these obligations in electric and gas rates. In the event that the Company is unable to recover these costs or recovery of these costs were to be significantly delayed, the Company's operating results could be materially adversely affected. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity, Commitments and Capital Requirements and Note 10 to the accompanying Consolidated Financial Statements.

Increases in interest rates could have a negative impact on the Company's financial condition and the Company may need to use a significant portion of its cash flow to repay its outstanding indebtedness.

The Company and its utility subsidiaries have ongoing capital expenditure and cash funding requirements that they frequently fund by issuing short-term debt and long-term debt.

Short-term debt borrowings are typically at variable rates of interest. Therefore, changes in short-term interest rates will increase or decrease the Company's interest expense associated with short-term borrowings. Increases in interest rates generally will increase the Company's borrowing costs with respect to short-term debt and could adversely affect its financial condition or results of operations. As of December 31, 2008, the Company had approximately $39.1 million outstanding under a bank financing facility, which provides for a loan which matures on November 1, 2009, and $35.0 million outstanding under a revolving credit facility.

Long-term debt borrowings are typically at fixed rates of interest. Therefore, changes in interest rates do not affect interest expense associated with presently outstanding fixed rate long-term debt securities. However, changes in interest rates may affect the interest rate and corresponding interest expense on any new long-term debt securities that are issued. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity, Commitments and Capital Requirements and Note 5 to the accompanying Consolidated Financial Statements.

The Company may need to use a significant portion of its cash flow to repay its short-term debt and long-term debt, which would limit the amount of cash it has available for working capital, capital expenditures and other general corporate purposes and could negatively affect its liquidity, financial condition and results of operations.

The Company's and its subsidiaries' indebtedness contains covenants that could restrict the Company's business operations.

See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity, Commitments and Capital Requirements and Note 5 to the accompanying Consolidated Financial Statements.

Weather conditions may cause the Company's sales to vary from year to year.

Sales by the Company's distribution utilities vary from year to year, depending on weather conditions. The Company estimates that approximately 50% of its annual natural gas sales are temperature sensitive. As a result, mild winter temperatures can cause a decrease in the amount of natural gas sold by the Company in any year, particularly during the winter heating season. The Company's electric sales are generally less sensitive to weather than its natural gas sales, but may also be affected by weather conditions in both the winter and summer seasons. The highest usage of electricity typically occurs in both the summer months due to air conditioning demand and the winter months due to heating-related requirements and shorter daylight hours.

The Company's results of operations reflect this seasonal nature. In particular, the Company expects that consolidated results of operations in future reporting periods will reflect to a greater degree the seasonal nature of natural gas sales by Northern Utilities, which was acquired by the Company on December 1, 2008. Accordingly, the Company expects that consolidated results of operations will be positively affected during the first and fourth quarters, and negatively affected during the second and third quarters of future reporting years.

Unitil is a holding company and has no operating income of its own. The Company's ability to pay dividends on its common stock is dependent on dividends received from its subsidiaries and on factors directly affecting Unitil, the parent corporation. The Company cannot assure you that its current annual dividend will be paid in the future.

Unitil is a public utility holding company and it does not have any operating income of its own. Consequently, the Company's ability to pay dividends on its common stock is dependent on dividends and other payments received from its subsidiaries, principally Unitil Energy, Fitchburg, Northern Utilities and Granite State. The ability of the Company's subsidiaries to pay dividends or make distributions to Unitil will depend on, among other things:

- the actual and projected earnings and cash flow, capital requirements and general financial condition of our subsidiaries;
- the prior rights of holders of existing and future preferred stock, mortgage bonds, long-term notes and other debt issued by the Company's subsidiaries;
- the restrictions on the payment of dividends contained in the existing loan agreements of Unitil Energy, Fitchburg, Northern Utilities and Granite State and that may be contained in future debt agreements of the Company's subsidiaries, if any; and
- limitations that may be imposed by New Hampshire, Massachusetts and Maine state regulatory agencies.

In addition, the Company may incur indebtedness in the future. Before the Company can pay dividends on its common stock, it has to satisfy its debt obligations, including the bank financing facility that the Company used to partially finance the Acquisitions and the long-term notes issued by Northern Utilities and Granite State, and comply with any statutory or contractual limitations.

The Company's current annual dividend is $1.38 per share of common stock, payable quarterly. However, the Company's Board of Directors reviews Unitil's dividend policy periodically in light of the factors referred to above, and the Company cannot assure the amount of dividends, if any, that may be paid in the future.

Transporting and storing natural gas and supplemental gas supplies, as well as electricity, involves numerous risks that may result in accidents and other operating risks and costs.

Inherent in the Company's electric and natural gas distribution activities are a variety of hazards and operating risks, such as leaks, explosions, electrocutions and mechanical problems that could cause substantial financial losses. In addition, these risks could result in loss of human life, significant damage to property, environmental pollution, and impairment of the Company's operations and substantial losses to Unitil. In accordance with customary industry practice, the Company maintains insurance against some, but not all, of these risks and losses. The location of pipelines, storage facilities and electric distribution equipment near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. The occurrence of any of these events not fully covered by insurance could adversely affect the Company's financial position and results of operations.

The Company's business is subject to environmental regulation in all jurisdictions in which it operates and its costs of compliance are significant. Any changes in existing environmental regulation and the incurrence of environmental liabilities could negatively affect the Company's results of operations and financial condition.

The Company's utility operations are generally subject to extensive federal, state and local environmental laws and regulations relating to air quality, water quality, waste management, natural resources, and the health and safety of the Company's employees. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties; imposition of remedial requirements; and even issuance of injunctions to ensure future compliance. Liability under certain environmental laws is strict, joint and several in nature. Although the Company believes it is in general compliance with all applicable environmental and safety laws and regulations, there can be no assurance that significant costs and liabilities will not be incurred in the future. Moreover, it is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations, could result in increased environmental compliance costs.

Catastrophic events could have a material adverse effect on the Company's financial condition or results of operations.

The electric and natural gas utility industries are from time to time affected by catastrophic events, such as unusually severe weather and significant and widespread failures of plant and equipment. Other catastrophic occurrences, such as terrorist attacks on utility facilities, may occur in the future. Such events could have a material adverse effect on the Company since they could inhibit its ability to continue providing electric and/or natural gas distribution services to its customers for an extended period, which is the principal source of the Company's operating income.

The Company's business could be adversely affected if it is unable to retain its existing customers or attract new customers.

The success of the Company's business depends, in part, on its ability to maintain and increase its customer base. The Company's failure to maintain or attract customers could have a material adverse effect on its business, financial condition and operating results.

The Company cannot guarantee customers' future performance under multi-year energy brokering contracts.

The Company's non-regulated energy brokering business provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Revenues from this business are primarily derived from brokering fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts. The Company cannot guarantee customers' future performance under multi-year energy brokering contracts.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2008, Unitil owned, through its distribution utilities, three utility operation centers, approximately 2,173 pole miles of local transmission and distribution overhead electric lines and 593 conduit bank miles of underground electric distribution lines, along with 49 electric substations, including three mobile electric substations. Our natural gas operations property includes two liquid propane gas plants, two liquid natural gas plants and 1,199 miles of underground gas mains. In addition, our real estate subsidiary, Unitil Realty, owns our corporate headquarters building and the 12 acres of land on which it is located.

Unitil Energy owns and maintains distribution operations centers in Concord, New Hampshire and Kensington, New Hampshire. Unitil Energy's 30 electric distribution substations, including a 5,000 kilovolt ampere (kVA) mobile substation, constitute 214,037 kVA of capacity, which excludes capacity of spare transformers, for the transformation of electric power from the 34.5 kV subtransmission voltage to other primary distribution voltage levels. The electric substations are located on land owned by Unitil Energy or land occupied by Unitil Energy pursuant to perpetual easements.

Unitil Energy has a total of approximately 1,613 pole miles of local transmission and distribution overhead electric lines and a total of 413 conduit bank miles of underground electric distribution lines. The electric distribution lines are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by Unitil Energy without objection by the owners. In the case of certain distribution lines, Unitil Energy owns only a part interest in the poles upon which its wires are installed, the remaining interest being owned by telephone companies.

The physical utility properties of Unitil Energy, with certain exceptions, and its franchises are subject to its indenture of mortgage and deed of trust under which the respective series of first mortgage bonds of Unitil Energy are outstanding.

Fitchburg's electric properties consist principally of 560 pole miles of local transmission and distribution overhead electric lines, 180 conduit bank miles of underground electric distribution lines and 19 transmission and distribution stations (including two mobile electric substations). The capacity of these substations totals 443,150 kVA, which excludes capacity of spare transformers.

Fitchburg owns a liquid propane gas plant and a liquid natural gas plant, both of which are located on land owned by Fitchburg. Fitchburg also has 264 miles of underground steel, cast iron and plastic gas mains.

Fitchburg's electric substations, with minor exceptions, are located on land owned by Fitchburg or occupied by Fitchburg pursuant to perpetual easements. Fitchburg's electric distribution lines and gas mains are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by Fitchburg without objection by the owners. Fitchburg leases its distribution operations center located in Fitchburg, Massachusetts.

Northern Utilities' distribution system is comprised of 935 miles of gas mains and 38,262 service pipes. The gas mains are primarily made up of polyethylene plastic (65%), coated and wrapped cathodically protected steel (22%), cast/wrought iron (8%), and unprotected bare and coated steel (5%).

Northern Utilities' New Hampshire division serving 21 communities has 470 miles of distribution gas mains and 19,288 service pipes. Northern Utilities' Maine division serving 23 communities has 465 miles of distribution and 18,974 service pipes. Northern Utilities also owns a liquid propane gas plant on land owned by Northern Utilities.

Granite State is a natural gas transmission pipeline, regulated by the FERC, operating 87 miles of underground gas transmission pipeline located in Maine and New Hampshire.

The Company believes that its facilities are currently adequate for their intended uses.

Item 3. Legal Proceedings

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. The Company believes, based upon information furnished by counsel and others, the ultimate resolution of these claims will not have a material impact on the Company's financial position.

A putative class action complaint was filed against Fitchburg on January 7, 2009 in Worcester Superior Court in Worcester, Massachusetts, captioned Bellerman v. Fitchburg Gas and Electric Light Company. The complaint seeks an unspecified amount of damages including the cost of temporary housing and alternative fuel sources, emotional and physical pain and suffering and property damages allegedly incurred by customers in connection with the loss of electric service during the ice storm in Fitchburg's service territory in December, 2008. As of this date the complaint has not been served on Fitchburg. The Company believes this complaint is without merit, and will defend itself vigorously.

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Registrant's common stock is listed on the New York Stock Exchange under the symbol "UTL". As of December 31, 2008, there were 1,667 shareholders of record.

Common Stock Data

Dividends per Common Share	2008	2007
1st Quarter	**$0.345**	$0.345
2nd Quarter	**0.345**	0.345
3rd Quarter	**0.345**	0.345
4th Quarter	**0.345**	0.345
Total for Year	**$ 1.38**	$ 1.38

	2008		2007	
Price Range of Common Stock	High/Ask	Low/Bid	High/Ask	Low/Bid
1st Quarter	**$29.00**	**$25.75**	$27.30	$25.10
2nd Quarter	**$28.60**	**$26.41**	$28.40	$26.65
3rd Quarter	**$27.94**	**$25.46**	$31.73	$27.07
4th Quarter	**$26.60**	**$19.50**	$29.97	$25.75

Information regarding Securities Authorized for Issuance Under Equity Compensation Plans is set forth in the table below.

EQUITY COMPENSATION PLAN BENEFIT INFORMATION

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders			
Restricted Stock Plan (1)	—	N/A	74,105
Equity compensation plans not approved by security holders			
1998 Option Plan (2)	97,200	$27.16	—
Total	97,200	$27.16	74,105

NOTES: (also see Note 4 to the accompanying Consolidated Financial Statements)

(1) The Restricted Stock Plan was approved by shareholders in April 2003. 10,600 shares of restricted stock were awarded to Plan participants in May 2003; 10,700 shares of restricted stock were awarded to Plan participants in April 2004; 10,900 shares of restricted stock were awarded to Plan participants in March 2005; 14,375 shares of restricted stock were awarded to Plan participants in February 2006; 9,020 shares of restricted stock were awarded to Plan participants in February 2007; 15,540 shares of restricted stock were awarded to Plan participants in February 2008; 32,260 shares of restricted stock were awarded to Plan participants in February 2009.

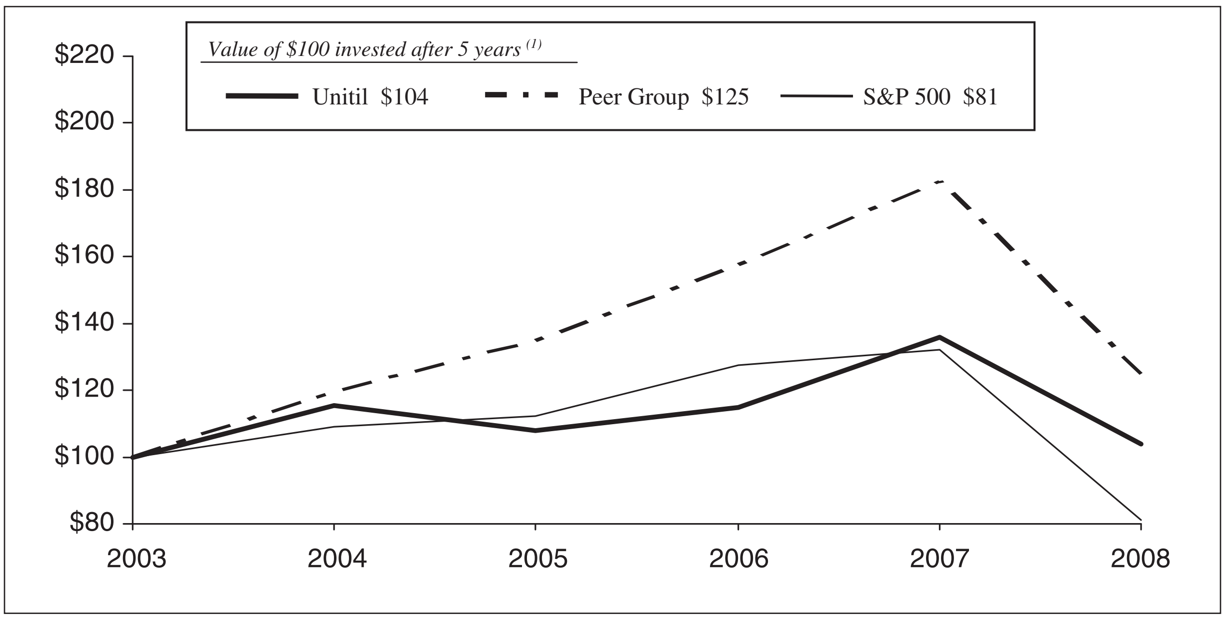
(2) The 1998 Option Plan was adopted by the Board of Directors of the Company in December 1998. At the time of adoption, the 1998 Option Plan was not required, under American Stock Exchange (the exchange upon which the Company was then listed) rules, to obtain shareholder approval. Options

were granted in March 1999, January 2000, and January 2001. On January 16, 2003, the Board of Directors terminated the 1998 Option Plan upon the recommendation of the Compensation Committee. In April 2004, the 177,500 remaining registered and ungranted shares in the 1998 Option Plan were deregistered with the Securities and Exchange Commission. The 1998 Option Plan will remain in effect solely for the purposes of the continued administration of all options currently outstanding under the 1998 Option Plan. No further grants of options will be made thereunder.

Stock Performance Graph

The following graph compares Unitil Corporation's cumulative stockholder return since December 31, 2003 with the Peer Group index, comprised of the S&P Utility Index, and the S&P 500 index. The graph assumes that the value of the investment in the Company's common stock and each index (including reinvestment of dividends) was $100 on December 31, 2003.

Comparative Five-Year Total Returns



NOTES:

(1) The graph above assumes $100 invested on December 31, 2003, in each category and the reinvestment of all dividends during the five-year period. The Peer Group is comprised of the S&P Utility Index.

Unregistered Sales of Equity Securities and Uses of Proceeds

There were no sales of unregistered equity securities by the Company for the fiscal period ended December 31, 2008.

Pursuant to the written trading plan under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act), adopted by the Company on March 20, 2008, the Company periodically repurchases shares of its Common Stock on the open market related to Employee Length of Service Awards and the stock portion of the Directors' annual retainer. The Company may suspend or terminate its Rule 10b5-1 trading plan at any time, so long as the suspension or termination is made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5 under the Exchange Act, or other applicable securities laws. There is no pool or maximum number of shares related to these purchases; however, the trading plan will terminate when $82,500 in value of shares have been purchased or on March 20, 2009. As of December 31, 2008, the approximate value of shares that may yet be purchased under the plans or programs was $4,000. Company repurchases are shown in the table below for the monthly periods noted:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
10/1/08 – 10/31/08	—	—	—
11/1/08 – 11/30/08	—	—	—
12/1/08 – 12/31/08	2,754	$22.33	2,754
Total	2,754	$22.33	2,754

Item 6. Selected Financial Data

For the Years Ended December 31,	2008	2007	2006	2005	2004
(all data in millions except shares, % and per share data) (1)					
Consolidated Statements of Earnings:					
Operating Revenue	**$ 288.2**	$ 262.9	$ 260.9	$ 232.1	$ 214.1
Operating Income	**20.5**	18.5	15.8	15.5	15.2
Other Non-operating Expense (Income)	**0.3**	0.2	—	0.1	0.2
Income Before Interest Expense, net	**20.2**	18.3	15.8	15.4	15.0
Interest Expense, net	**10.5**	9.6	7.8	6.8	6.8
Net Income	**9.7**	8.7	8.0	8.6	8.2
Dividends on Preferred Stock	**0.1**	0.1	0.1	0.2	0.2
Earnings Applicable to Common Shareholders	**$ 9.6**	$ 8.6	$ 7.9	$ 8.4	$ 8.0
Balance Sheet Data:					
Utility Plant (Original Cost)	**$ 641.4**	$ 380.5	$ 353.0	$ 325.0	$ 308.1
Total Assets	**$ 735.2**	$ 474.6	$ 483.4	$ 450.1	$ 457.0
Capitalization:					
Common Stock Equity	**$ 139.5**	$ 100.4	$ 97.8	$ 96.3	$ 94.3
Preferred Stock	**2.0**	2.1	2.1	2.3	2.3
Long-Term Debt, less current portion	**249.3**	159.6	140.0	125.4	110.7
Total Capitalization	**$ 390.8**	$ 262.1	$ 239.9	$ 224.0	$ 207.3
Current Portion of Long-Term Debt	**$ 0.4**	$ 0.4	$ 0.3	$ 0.3	$ 0.3
Short-term Debt	**$ 74.1**	$ 18.8	$ 26.0	$ 18.7	$ 25.7
Capital Structure Ratios:					
Common Stock Equity	**36%**	38%	41%	43%	46%
Preferred Stock	**1%**	1%	1%	1%	1%
Long-Term Debt	**63%**	61%	58%	56%	53%
Earnings Per Share Data:					
Earnings Per Average Share	**$ 1.65**	$ 1.52	$ 1.41	$ 1.51	$ 1.45
Common Stock Data:					
Shares of Common Stock – (Average Outstanding, 000's)	**5,830**	5,672	5,612	5,568	5,525
Dividends Paid Per Share	**$ 1.38**	$ 1.38	$ 1.38	$ 1.38	$ 1.38
Book Value Per Share (Year-End)	**$ 17.90**	$ 17.50	$ 17.30	$ 17.21	$ 17.00
Electric and Gas Sales:					
Electric Distribution Sales (Millions kWh)	**1,695.9**	1,743.0	1,751.5	1,790.4	1,742.1
Firm Natural Gas Distribution Sales (Millions Therms)	**47.2**	28.4	26.4	24.3	23.2

(1) As a result of the acquisitions of Northern Utilities and Granite State on December 1, 2008, consolidated results for the Company in the current period may not be directly comparable to prior period results until such time as the acquisitions are fully reflected in both reporting periods.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) (Note references are to Notes to the Consolidated Financial Statements in Item 8.)

OVERVIEW

Unitil is a public utility holding company headquartered in Hampton, New Hampshire. Unitil is subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005. On December 1, 2008, the Company purchased: (i) all of the outstanding capital stock of Northern Utilities, a natural gas distribution utility serving customers in New Hampshire and Maine, from Bay State and (ii) all of the outstanding capital stock of Granite State, an interstate gas transmission pipeline company primarily serving the needs of Northern Utilities, from NiSource.

Unitil's principal business is the local distribution of electricity and natural gas throughout its service territory in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three wholly-owned distribution utilities:

i) Unitil Energy, which provides electric service in southeastern seacoast and state capital regions of New Hampshire;

ii) Fitchburg, which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts; and

iii) Northern Utilities, which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine, including the city of Portland and the Lewiston-Auburn area.

Unitil Energy, Fitchburg and Northern Utilities are collectively referred to as the "distribution utilities." Together, the distribution utilities serve approximately 100,300 electric customers and 69,300 natural gas customers in their service territory.

In addition, Unitil is the parent company of Granite State, a natural gas transmission pipeline, regulated by the FERC, operating 87 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to three major natural gas pipelines and access to pipeline supplies.

The distribution utilities are local "pipes and wires" operating companies and, combined with Granite State, had an investment in Net Utility Plant of $422.8 million at December 31, 2008. Unitil's total revenue was $288.2 million in 2008, which includes revenue to recover the cost of purchased electricity and natural gas in rates on a fully reconciling basis. As a result of this reconciling rate structure, the Company's earnings are not affected by changes in the cost of purchased electricity and natural gas. Earnings applicable to common shareholders for 2008 were $9.6 million. Substantially all of Unitil's earnings are derived from the return on investment in the three distribution utilities and Granite.

Unitil also conducts non-regulated operations principally through Usource, which is wholly-owned by Unitil Resources. Usource provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Usource's total revenues were $3.8 million in 2008. The Company's other subsidiaries include Unitil Service, which provides, at cost, a variety of administrative and professional services to Unitil's affiliated companies, and Unitil Realty, which owns and manages Unitil's corporate office building and property located in Hampton, New Hampshire. Unitil's consolidated net income includes the earnings of the holding company and these subsidiaries.

CAUTIONARY STATEMENT

This report and the documents we incorporate by reference into this report contain statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included or incorporated by reference into this report, including, without limitation, statements regarding the financial position, business strategy and other plans and objectives for the Company's future operations, are forward-looking statements.

These statements include declarations regarding the Company’s beliefs and current expectations. In some cases, forward-looking statements can be identified by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of such terms or other comparable terminology. These forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the risks and uncertainties include those described in Item 1A (Risk Factors) and the following:

- The Company’s ability to complete the integration of the business, operations and personnel of Northern Utilities and Granite State and to achieve the estimated potential synergy savings attributable to the Acquisitions;
- The Company’s ability to retain existing customers and gain new customers;
- Variations in weather;
- Major storms;
- Changes in the regulatory environment;
- Customers’ preferences on energy sources;
- Interest rate fluctuation and credit market concerns;
- General economic conditions, including recent distress in the financial markets that has had an adverse impact on the availability of credit and liquidity resources generally and could jeopardize certain of our counterparty obligations, including those of our insurers and financial institutions;
- Fluctuations in supply, demand, transmission capacity and prices for energy commodities;
- Increased competition; and
- Customers’ performance under multi-year energy brokering contracts.

Many of these risks are beyond the Company’s control. Any forward-looking statements speak only as of the date of this report, and the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for the Company to predict all of these factors, nor can the Company assess the impact of any such factor on its business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements.

See also Item 1A Risk Factors.

RESULTS OF OPERATIONS

The following discussion of the Company’s financial condition and results of operations should be read in conjunction with the accompanying Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in Item 8 of this report.

Net Income and EPS Overview

2008 Compared to 2007—The Company’s Earnings Applicable to Common Shareholders was $9.6 million for 2008, an increase of 12% over 2007 Earnings of $8.6 million. Earnings per common share were $1.65 for 2008, $0.13 per share higher than last year.

Earnings in 2008 reflect the acquisitions, on December 1, 2008, of Northern Utilities and Granite State, which drove higher gas sales margins.

The following table presents the significant items (discussed below) contributing to the change in earnings per share in 2008 as compared to 2007:

2008 Earnings Per Share vs. 2007

	2007	**$1.52**
Electric Sales Margin		(0.15)
Gas Sales Margin		0.72
Usource Sales Margin		0.01
Operation and Maintenance Expense		(0.14)
Depreciation, Amortization and Other		(0.22)
Interest Expense, Net		(0.09)
	2008	**$ 1.65**

Electric sales margin decreased $1.4 million in 2008 compared to 2007. The decrease in electric sales margin primarily reflects lower sales volumes, partially offset by higher electric base rates implemented in March of 2008. Total electric kilowatt-hour (kWh) sales decreased 2.7% in 2008 compared to 2007 driven by lower average usage per customer reflecting milder summer temperatures, a slowing economy and energy conservation.

Natural gas sales margin increased $6.7 million in 2008 compared to 2007. This increase reflects $5.4 million of gas sales margin from Northern Utilities and Granite State and an additional increase of $1.3 million in gas sales margin reflecting higher rates implemented in November 2007 and higher sales to Commercial and Industrial (C&I) customers. Overall, natural gas sales increased 66.2% in 2008 compared to 2007. Excluding the contribution of the acquisition of Northern Utilities, total therm sales of natural gas increased 1.1% in 2008 compared to 2007.

Total Operation & Maintenance (O&M) expenses increased $1.3 million, or 5.0%, in 2008 compared to 2007. The acquisitions of Northern Utilities and Granite State accounted for $0.9 million of the increase. In addition, the increase in O&M expenses reflects higher employee and retiree compensation and benefit expenses of $2.7 million, including increased employee benefits of $1.4 million, driven primarily by higher medical claims in 2008 and higher employee benefits related to staffing increases, and higher salaries and compensation of $1.3 million, due to normal annual increases and staffing additions. Also contributing to the increase in O&M expenses were higher utility operating costs of $0.3 million and higher bad debt expenses of $0.3 million, partially offset by a reduction of $2.8 million from the proceeds of an insurance settlement and lower professional fees of $0.1 million.

Depreciation, Amortization, Taxes and Other expenses increased $2.2 million in 2008 compared to 2007. The acquisitions of Northern Utilities and Granite State accounted for $0.9 million of the increase. In addition, the increase in Depreciation, Amortization, Taxes and Other expenses reflects the amortization, in the first quarter of 2008, of $0.7 million of natural gas inventory carrying costs deferred under a previous regulatory ruling, higher depreciation on normal utility plant additions and higher property and payroll taxes. Partially offsetting these increases were lower amortization costs of $0.8 million.

Interest Expense, Net increased $0.9 million in 2008 compared to 2007. The acquisitions of Northern Utilities and Granite State accounted for $0.3 million of the increase. The increase associated with the acquisitions is due to $0.5 million of interest expense from the issuance of long-term notes by Northern Utilities and Granite State in December 2008, partially offset by interest income on regulatory mechanisms. In addition to the increase related to the acquisitions, the remaining $0.6 million increase in Interest Expense, Net reflects higher debt outstanding and lower interest earned on regulatory assets compared to the prior period.

Usource, our non-regulated energy brokering business, recorded revenues of $3.8 million in 2008, an increase of $0.1 million over 2007. Usource's revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource.

On December 11, 2008 a severe ice storm hit the Northeast creating massive extended power outages for many residents of Massachusetts and New Hampshire, including Unitil's electric customers in New Hampshire and the greater Fitchburg, Massachusetts service area. Based on its preliminary assessment, the Company has accrued and deferred approximately $10 million in costs for the repair and replacement of electric distribution systems damaged during the storm. The amount and timing of the cost recovery of storm restoration expenditures will be determined in future regulatory proceedings.

In 2008, Unitil's annual common dividend was $1.38, representing an unbroken record of quarterly dividend payments since trading began in Unitil's common stock. At its January, 2009 meeting, the Unitil Board of Directors declared a quarterly dividend on the Company's common stock of $0.345 per share.

As a result of the acquisitions of Northern Utilities and Granite State on December 1, 2008, consolidated results for the Company in the current period may not be directly comparable to prior period results until such time as the acquisitions are fully reflected in both reporting periods. In particular, the Company expects that consolidated results of operations in future reporting periods will reflect to a greater degree the seasonal nature of natural gas sales by the acquired operating utilities. Accordingly, the Company expects that as a result of the acquisitions, consolidated results of operations will be positively affected during the first and fourth quarters, and negatively affected during the second and third quarters of future reporting years.

2007 Compared to 2006—The Company's Earnings Applicable to Common Shareholders was $8.6 million for 2007, an increase of 9% over 2006 Earnings of $7.9 million. Earnings per common share were $1.52 for 2007, $0.11 per share higher than 2006. Earnings in 2007 reflect higher electric and gas sales margins, driven by higher rates and increased sales of natural gas, and improved profits from Usource, Unitil's non-regulated energy-brokering business. Partially offsetting these factors were higher operating expenses.

A more detailed discussion of the Company's 2008 and 2007 results of operations and a year-to-year comparison of changes in financial position are presented below.

Subsequent Event

On December 15, 2008, the Company issued and sold 2,000,000 shares of its common stock at a price of $20.00 per share in a registered public offering. As part of this offering, the Company granted the underwriters a 30-day over-allotment option to purchase additional shares. The underwriters exercised the over-allotment option and purchased an additional 270,000 shares of the Company's common stock in January 2009. The Company's net increases to Common Equity and Cash from the over-allotment sales were approximately $5.1 million (after payment of the underwriting discount and offering expenses) and were used to repay a portion of the short-term indebtedness used for the Company's acquisitions of Northern Utilities and Granite State. The Company recorded the issuance of the 270,000 shares, the sale proceeds and the increase in Common Equity in January 2009.

Balance Sheet

The Company's Balance Sheet as of December 31, 2008 reflects the acquisitions of Northern Utilities and Granite State, which closed on December 1, 2008. Certain prior period balances have been reclassified to conform to current year presentation. Most significant has been the reclassification of certain balance sheet amounts between Regulatory Assets and Accrued Revenue and between current and noncurrent Energy Supply Contract Obligations.

The Company's Total Assets increased by $260.6 million in 2008 compared to 2007. The increase in Total Assets was driven by: an increase of $173.9 million in the Company's investment in Net Utility Plant, due to the acquisitions of Northern Utilities and Granite State and to capital expenditures related to Unitil Energy's and Fitchburg's electric and gas distribution systems; increases in Cash, Accounts Receivable, Accrued Revenue, Gas Inventory and other current assets of $77.4 million, primarily due to the acquisitions of Northern Utilities and Granite State; an increase in Other Noncurrent Assets of $9.6 million in 2008 compared to 2007, due to deferred amortizable charges for transition and transaction costs of $7.6 million associated with the acquisitions of Northern Utilities and Granite State, partially offset by a decrease in all other assets of $0.3 million.

The Company's Total Capitalization increased by $128.7 million in 2008 compared to 2007. This increase reflects an increase of $39.1 million in Common Equity, primarily due to the issuance of common shares by the Company as part of its financing of the acquisitions of Northern Utilities and Granite State (See Note 4 to the accompanying Consolidated Financial Statements), and an increase in Long-Term Debt of $89.7 million reflecting the issuance and sale of $80 million of Senior Unsecured Notes by Northern Utilities on December 3, 2008 and the issuance and sale of $10 million of Senior Unsecured Notes by Granite State on December 15, 2008, both through private placements to institutional investors (See Note 5 to the accompanying Consolidated Financial Statements).

The Company's Total Liabilities increased $131.9 million in 2008 compared to 2007 reflecting an increase in Current Liabilities and Non-Current Liabilities of $124.5 million and $9.7 million respectively, partially offset by a decrease in Deferred Income Taxes of $2.3 million. The increase in Current Liabilities was driven by an increase in Accounts Payable of $18.7 million, primarily due to the acquisitions of Northern Utilities and Granite State; an increase of $55.3 million in Short-Term Debt, including the $39.1 million remaining on the bank financing facility which was used to finance a portion of the acquisitions of Northern Utilities and Granite State, and increased borrowings for utility operating purposes; an increase of $22.0 million in Energy Supply Contract Obligations, primarily related to natural gas payment obligations associated with Northern Utilities; and an increase in Other Current Liabilities of $28.5 million. The increase in Other Current Liabilities includes: accrued storm restoration costs of $9.5 million related to the December 2008 ice storm experienced in the Company's service territories, $7.7 million of payments due to NiSource, Inc. in connection with the Company's acquisitions of Northern Utilities and Granite State, and $4.5 million of recoverable, accrued gas supply costs and an increase of $6.8 million in all other items.

The increase in Noncurrent Liabilities was driven by: an increase of $19.2 million in Retirement Benefit Obligations reflecting $4.4 million of retirement plan obligations associated with the acquisitions of Northern Utilities and Granite State and a net increase of $14.8 million in the actuarial obligations of the Company's other pension and postretirement benefit obligations, primarily due to the poor performance of capital markets during 2008 which adversely affected the Company's pension plan assets (See Note 10 to the accompanying Consolidated Financial Statements); an increase of $8.3 million in Other Noncurrent Liabilities, reflecting $3.1 million of accrued regulatory compliance costs for Northern Utilities (See Note 7 to the accompanying Consolidated Financial Statements), $2.6 of accrued integration costs associated with the acquisitions of Northern Utilities and Granite State, $1.1 million of long-term recoverable accrued gas supply costs and an increase in all other items of $1.5 million; and an increase of $0.3 million in Environmental Obligations. These increases were partially offset by a decrease of $18.1 million in Energy Supply Contract Obligations, reflecting current year cost recoveries.

Electric Sales, Revenues and Margin

Kilowatt-hour Sales—Unitil's total electric kWh sales decreased 2.7% in 2008 compared to 2007. Electric kWh sales to residential customers and C&I customers decreased 2.2% and 3.0%, respectively, in 2008 compared to 2007. The lower electric kWh sales in 2008 compared to 2007 were driven by lower average usage per customer reflecting milder summer temperatures, a slowing economy and energy conservation.

Unitil's total electric kWh sales decreased 0.5% in 2007 compared to 2006. Electric kWh sales to residential customers increased 0.4% in 2007 compared to 2006. The lower total kWh sales in 2007 compared to 2006 were driven by milder summer temperatures in 2007 compared to 2006, energy conservation by customers in response to higher overall energy prices and a slowing economy.

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

kWh Sales (millions)

				2008 vs. 2007		2007 vs. 2006	
	2008	2007	2006	Change kWh	Change %	Change kWh	Change %
Residential	**660.2**	674.8	672.2	(14.6)	(2.2%)	2.6	0.4%
Commercial / Industrial	**1,035.7**	1,068.2	1,079.3	(32.5)	(3.0%)	(11.1)	(1.0%)
Total	**1,695.9**	1,743.0	1,751.5	(47.1)	(2.7%)	(8.5)	(0.5%)

Electric Operating Revenues and Sales Margin—The following table details Total Electric Operating Revenue and Sales Margin for the last three years by major customer class:

Electric Operating Revenues (millions)

				2008 vs. 2007		2007 vs. 2006	
	2008	**2007**	**2006**	**$ Change**	**% Change[1]**	**$ Change**	**% Change[1]**
Electric Operating Revenue:							
Residential	**$114.5**	$114.7	$105.9	$(0.2)	(0.1%)	$ 8.8	3.9%
Commercial / Industrial	**113.0**	110.3	119.3	2.7	1.2%	(9.0)	(4.0%)
Total Electric Operating Revenue	**$227.5**	$225.0	$225.2	$ 2.5	1.1%	$(0.2)	(0.1%)
Cost of Electric Sales:							
Purchased Electricity	**$170.1**	$165.4	$167.3	$ 4.7	2.1%	$(1.9)	(0.8%)
Conservation & Load Management	**2.6**	3.4	3.6	(0.8)	(0.4%)	(0.2)	(0.1%)
Total Cost of Electric Sales	**$172.7**	$168.8	$170.9	$ 3.9	1.7%	$(2.1)	(0.9%)
Electric Sales Margin	**$ 54.8**	$ 56.2	$ 54.3	$(1.4)	(0.6%)	$ 1.9	0.8%

(1) Represents change as a percent of Total Electric Operating Revenue.

Total Electric Operating Revenues increased by $2.5 million, or 1.1%, in 2008 compared to 2007. Total Electric Operating Revenues include the recovery of costs of electric sales, which are recorded as Purchased Electricity and Conservation and Load Management (C&LM) in Operating Expenses. The net increase in Total Electric Operating Revenues in 2008 reflects higher Purchased Electricity costs of $4.7 million offset by lower C&LM revenues of $0.8 million and lower sales margin of $1.4 million.

Purchased Electricity and C&LM revenues increased $3.9 million, or 1.7%, of Total Electric Operating Revenues in 2008 compared to 2007, primarily reflecting higher electric commodity prices, partially offset by lower sales volumes and lower spending on energy efficiency and conservation programs. Purchased Electricity revenues include the recovery of the cost of electric supply as well as other energy supply related restructuring costs, including long-term power supply contract buyout costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. The Company recovers the cost of Purchased Electricity and C&LM in its rates at cost on a pass through basis.

Electric sales margin decreased $1.4 million in 2008 compared to 2007. The decrease in electric sales margin primarily reflects lower sales volumes, partially offset by higher electric base rates implemented in March of 2008. Total electric sales decreased 2.7% in 2008 compared to 2007 driven by lower average usage per customer reflecting milder summer temperatures, a slowing economy and energy conservation.

Total Electric Operating Revenues decreased by $0.2 million, or 0.1%, in 2007 compared to 2006. The net decrease in Total Electric Operating Revenues in 2007 reflects lower Purchased Electricity costs of $1.9 million and lower C&LM revenues of $0.2 million, offset by higher sales margin of $1.9 million.

Electric sales margin increased $1.9 million in 2007 compared to 2006. The improvement in electric sales margin reflects higher average distribution rates in 2007 compared to 2006, partially offset by lower sales volumes due to milder summer temperatures this year, energy conservation by customers in response to higher overall energy prices and a slowing economy.

Gas Sales, Revenues and Margin

Therm Sales—Overall, Unitil's total therm sales of natural gas increased 66.2% in 2008 compared to 2007. Excluding the contribution of the acquisition of Northern Utilities, total therm sales of natural gas increased 1.1% in 2008 compared to 2007, reflecting a decrease of 2.0% in sales to residential customers offset by an increase of 2.7% in sales to C&I customers. The lower sales to residential customers in 2008 reflects a milder winter heating season earlier this year and lower average usage by our customers reflecting a slowing economy and energy conservation. The increase in gas sales to C&I customers in 2008 reflects increased usage of natural gas in those customers' production operations.

Unitil's total therm sales of natural gas increased 7.6% in 2007 compared to 2006. The increase in gas sales in 2007 reflects a colder winter heating season in 2007 compared to 2006 and higher natural gas sales to C&I customers. In 2007, natural gas sales to residential customers increased 4.1% compared to 2006 driven by the colder winter weather. Sales to C&I customers increased 9.6% compared to 2006, primarily due to a special contract with a large industrial customer.

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

Therm Sales (millions)

				2008 vs. 2007		2007 vs. 2006	
	2008	**2007**	**2006**	**Change**	**Change %**	**Change**	**Change %**
Residential	**13.3**	10.2	9.8	3.1	30.4%	0.4	4.1%
Commercial / Industrial	**33.9**	18.2	16.6	15.7	86.3%	1.6	9.6%
Total	**47.2**	28.4	26.4	18.8	66.2%	2.0	7.6%

Gas Operating Revenues and Sales Margin—The following table details total Gas Operating Revenue and Margin for the last three years by major customer class:

Gas Operating Revenues and Sales Margin (millions)

				2008 vs. 2007		2007 vs. 2006	
	2008	**2007**	**2006**	**$ Change**	**% Change(1)**	**$ Change**	**% Change(1)**
Gas Operating Revenue:							
Residential	**$27.5**	$18.8	$17.2	$ 8.7	25.4%	$ 1.6	4.8%
Commercial / Industrial	**29.4**	15.4	16.1	14.0	41.0%	(0.7)	(2.1%)
Total Gas Operating Revenue	**$56.9**	$34.2	$33.3	$22.7	66.4%	$ 0.9	2.7%
Cost of Gas Sales:							
Purchased Gas	**$37.3**	$21.3	$22.4	$16.0	46.8%	$(1.1)	(3.3%)
Conservation & Load Management	**0.2**	0.2	0.2	—	—	—	—
Total Cost of Gas Sales	**$37.5**	$21.5	$22.6	$16.0	46.8%	$(1.1)	(3.3%)
Gas Sales Margin	**$19.4**	$12.7	$10.7	$ 6.7	19.6%	$ 2.0	6.0%

(1) Represents change as a percent of Total Gas Operating Revenue.

Total Gas Operating Revenues increased $22.7 million, or 66.4%, in 2008 compared to 2007, largely reflecting the acquisition of Northern Utilities and Granite State on December 1, 2008 and the 1.1% increase in gas sales, net of the effect of the acquisitions, and higher rates implemented in November 2007. Total Gas Operating Revenues include the recovery of the cost of sales, which are recorded as Purchased Gas and C&LM in Operating Expenses. The increase in Total Gas Operating Revenues in 2008 reflects higher Purchased Gas costs of $16.0 million and higher sales margin of $6.7 million.

Purchased Gas and C&LM revenues increased $16.0 million, or 46.8%, of Total Gas Operating Revenues in 2008 compared to 2007, largely reflecting the acquisition of Northern Utilities and Granite State on December 1, 2008 as well as higher natural gas commodity prices. Purchased Gas revenues include the recovery of the cost of gas supply as well as the other energy supply related costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. The Company recovers the cost of Purchased Gas and C&LM in its rates at cost on a pass through basis.

Natural gas sales margin increased $6.7 million in 2008 compared to 2007. This increase reflects $5.4 million of gas sales margin from Northern Utilities and Granite State and an additional increase of $1.3 million in gas sales margin reflecting higher rates implemented in November 2007 and higher sales to C&I customers.

Total Gas Operating Revenues increased $0.9 million, or 2.7%, in 2007 compared to 2006. Total Gas Operating Revenues include the recovery of the cost of sales, which are recorded as Purchased Gas and C&LM in Operating Expenses. The increase in Total Gas Operating Revenues in 2007 reflects higher sales margin of $2.0 million, partially offset by lower Purchased Gas costs of $1.1 million.

Natural gas sales margin increased $2.0 million in 2007 compared to 2006 reflecting higher sales and new natural gas distribution rates approved and implemented in November 2007.

Operating Revenue—Other

Total Other Revenue increased $0.1 million in 2008 compared to 2007 and $1.3 million in 2007 compared to 2006. These increases were the result of growth in revenues from the Company's non-regulated energy brokering business, Usource. Usource's revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource.

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

Other Revenue (millions)

				2008 vs. 2007		2007 vs. 2006	
	2008	2007	2006	$ Change	% Change	$ Change	% Change
Usource	**$3.8**	$3.7	$2.4	$0.1	2.7%	$1.3	54.2%
Total Other Revenue	**$3.8**	$3.7	$2.4	$0.1	2.7%	$1.3	54.2%

Operating Expenses

Purchased Electricity—Purchased Electricity includes the cost of electric supply as well as other energy supply related restructuring costs, including power supply buyout costs. Purchased Electricity increased $4.7 million, or 2.8%, in 2008 compared to 2007. This increase reflects higher electric commodity prices partially offset by lower sales volumes. The Company recovers the costs of Purchased Electricity in its rates at cost and therefore changes in these expenses do not affect earnings.

In 2007, Purchased Electricity expenses decreased $1.9 million, or 1.1%, compared to 2006 due lower electric kWh sales and an increase in the amount of electricity purchased by customers directly from third-party suppliers, partially offset by higher electric commodity prices.

Purchased Gas—Purchased Gas includes the cost of natural gas purchased and manufactured to supply the Company's total gas supply requirements. Purchased Gas increased $16.0 million, or 75.1%, in 2008 compared to 2007. The increase in Purchased Gas largely reflects the acquisition of Northern Utilities and Granite State on December 1, 2008. In addition to the increase in Purchased Gas due to the acquisitions, Purchased Gas increased $1.5 million, or 7.0%, in 2008 compared to 2007 reflecting higher natural gas commodity prices and higher sales to C&I customers. The Company recovers the costs of Purchased Gas in its rates at cost on a pass through basis and therefore changes in these expenses do not affect Net Income.

In 2007, Purchased Gas decreased by $1.1 million, or 4.9%, compared to 2006, reflecting lower gas commodity prices and an increase in the amount of natural gas purchased by customers directly from third party suppliers, partially offset by increased therm sales.

Operation and Maintenance (O&M)—O&M expense includes electric and gas utility operating costs, and the operating costs of the Company's non-regulated business activities. Total O&M expenses increased $1.3 million, or 5.0%, in 2008 compared to 2007. The acquisitions of Northern Utilities and Granite State accounted for $0.9 million of the increase. In addition, the increase in O&M expenses reflects higher employee and retiree compensation and benefit expenses of $2.7 million, including increased employee benefits of $1.4 million, driven primarily by higher medical claims in 2008 and higher employee benefits related to staffing increases, and higher salaries and compensation of $1.3 million, due to normal annual increases and staffing additions. Also contributing to the increase in O&M expenses were higher utility operating costs of $0.3 million and higher bad debt expenses of $0.3 million, partially offset by a reduction of $2.8 million from the proceeds of an insurance settlement and lower professional fees of $0.1 million.

In 2007, total O&M expense increased $0.5 million, or 1.9%, compared to 2006. This increase reflects higher employee and retiree compensation and benefit expenses of $0.8 million, including higher retiree benefit costs of $0.9 million, driven by higher pension and other postretirement benefit costs, and higher salaries and compensation of $0.8 million due to normal annual increases, partially offset by lower employee benefit costs of $0.9 million, driven by lower medical insurance costs. Also contributing to the increase in O&M expense were higher bad debt expenses of $0.1 million and an increase in all other operating expenses of $0.2 million, net, offset by lower distribution utility operating expenses of $0.6 million.

Conservation & Load Management—Conservation and Load Management expenses are expenses associated with the development, management, and delivery of the Company's energy efficiency programs. Energy efficiency programs are designed, in conformity to state regulatory requirements, to help consumers use natural gas and electricity more efficiently and thereby decrease their energy costs. Programs are tailored to residential, small business and large business customer groups and provide educational materials, technical assistance, and rebates that contribute toward the cost of purchasing and installing approved measures. Approximately 90% of these costs are related to electric operations and 10% to gas operations.

Total Conservation & Load Management expenses decreased by $0.8 million, in 2008 compared to 2007. These costs are collected from customers on a fully reconciling basis and therefore, fluctuations in program costs do not affect earnings.

Total Conservation & Load Management expenses decreased $0.2 million in 2007 compared to 2006.

Depreciation and Amortization—Depreciation and Amortization expense increased $1.3 million, or 7.3% in 2008 compared to 2007. The acquisitions of Northern Utilities and Granite State accounted for $0.6 million of the increase. In addition, the increase in Depreciation and Amortization expense reflects the amortization, in the first quarter of 2008, of $0.7 million of natural gas inventory carrying costs deferred under a previous regulatory ruling, and higher depreciation on normal utility plant additions. Partially offsetting these increases were lower amortization costs of $0.8 million of information systems related costs.

In 2007, Depreciation and Amortization expense increased $1.7 million, or 10.6%, compared to 2006, reflecting higher depreciation on normal utility plant additions in 2007.

Local Property and Other Taxes—Local Property and Other Taxes increased by $0.9 million, or 16.1%, in 2008 compared to 2007. The acquisitions of Northern Utilities and Granite State accounted for $0.3 million of the increase. In addition, the increase in Local Property and Other Taxes reflects higher local property tax rates on higher levels of utility plant in service and higher payroll taxes on higher compensation expenses.

In 2007, Local Property and Other Taxes increased by $0.1 million, or 1.8% compared to 2006. This increase was due to higher local property tax rates on higher levels of utility plant in service and higher payroll taxes.

Federal and State Income Taxes—Federal and State Income Taxes decreased by $0.1 million in 2008 compared to 2007 due to a lower effective tax rate year over year due to the recognition of higher permanent book/tax differences, including higher tax credits and prior year tax return true-up adjustments, in the third quarter of 2008, partially offset by higher pre-tax operating income in 2008 compared to 2007.

Federal and State Income Taxes increased by $0.2 million in 2007 compared to 2006 due to higher pre-tax operating income in 2007 compared to 2006.

Other Non-operating Expenses (Income)

Other Non-operating Expenses (Income) increased by $0.1 million in 2008 compared to 2007. This change reflects an adjustment of $0.1 million in conjunction with the Company's electric base distribution rate increase in Massachusetts which was implemented in March of 2008.

Other Non-operating Expenses (Income) increased by $0.2 million in 2007 compared to 2006. This change reflects the recognition in 2006 of a gain on the sale of land and timber harvest revenue.

Interest Expense, net

Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. Certain reconciling rate mechanisms used by the Company's distribution utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated (See Note 5 to the accompanying Consolidated Financial Statements).

Interest Expense, Net increased $0.9 million in 2008 compared to 2007. The acquisitions of Northern Utilities and Granite State accounted for $0.3 million of the increase. The increase associated with the acquisitions is due to $0.5 million of interest expense from the issuance of long-term notes by Northern Utilities and Granite State in December 2008, partially offset by interest income on regulatory mechanisms. In addition to the increase related to the acquisitions, the remaining $0.6 million increase in Interest Expense, Net reflects higher debt outstanding and lower interest earned on regulatory assets compared to the prior period.

On December 15, 2008, Granite State completed the sale of $10 million of Senior Unsecured Notes, through a private placement to institutional investors. The Notes have a term of 10 years maturity and a coupon rate of 7.15%. The Company used the proceeds from the long-term Note financing to repay a portion of the bank financing for Unitil's acquisition of Granite State.

On December 3, 2008, Northern Utilities completed the sale of $80 million of Senior Unsecured Notes, through a private placement to institutional investors. The debt financing included $50 million of 30-year notes with a coupon rate of 7.72% and $30 million of 10-year notes with a coupon rate of 6.95%. The Company used the proceeds from the long-term Note financing to repay a portion of the bank financing for Unitil's acquisition of Northern Utilities.

In 2007, Total Interest Expense, net, rose by $1.8 million compared to 2006. This increase principally reflects the issuance of new long-term debt by Unitil on May 2, 2007. Unitil issued and sold $20 million of Senior Long-Term Notes at a coupon rate of 6.33%, through a private placement to institutional investors. The Company utilized the proceeds from the long-term Note financing to refinance existing short-term debt and for other corporate purposes of the Company's distribution utilities. The resulting reduction in average daily short-term bank borrowings lowered short-term interest expense for the year which partially offset the increase in long-term interest expense.

LIQUIDITY, COMMITMENTS AND CAPITAL REQUIREMENTS

Sources of Capital

Unitil requires capital to fund utility plant additions, working capital and other utility expenditures recovered in subsequent and future periods through regulated rates. The capital necessary to meet these requirements is derived primarily from internally-generated funds, which consist of cash flows from operating activities. The Company initially supplements internally generated funds through bank borrowings, as needed, under unsecured short-term bank credit facilities. Periodically, the Company replaces portions of its short-term debt with long-term financings more closely matched to the long-term nature of its utility assets. The Company's utility operations are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows.

The continued availability of various methods of financing, as well as the choice of a specific form of security, will depend on many factors, including, but not limited to: security market conditions; general economic climate; regulatory approvals; the ability to meet covenant issuance restrictions; the level of earnings, cash flows, financial position; and the competitive pricing offered by financing sources.

The Company, along with its subsidiaries, are individually and collectively members of the Unitil Cash Pool (the Cash Pool). The Cash Pool is the financing vehicle for day-to-day cash borrowing and investing.

The Cash Pool allows for an efficient exchange of cash among the Company and its subsidiaries. The interest rates charged to the subsidiaries for borrowing from the Cash Pool are based on actual interest costs from lenders under the Company's revolving line of credit. At December 31, 2008 and 2007, all of the Company's subsidiaries were in compliance with the regulatory requirements to participate in the Cash Pool.

On December 1, 2008, the Company acquired all of the outstanding stock of Northern Utilities and Granite State for $160 million plus an additional working capital adjustment of $49.2 million, including approximately $30.0 million of natural gas storage inventory. The Company initially financed the Acquisitions and the related costs and expenses using borrowings under a bank financing facility with the Royal Bank of Canada. During December 2008, the Company repaid a portion of the bank financing facility using the net proceeds from: (i) the offering of the Company's common stock issued on December 15, 2008; (ii) the sale and issuance by Northern Utilities to institutional investors in a private placement of $80 million aggregate principal amount of long-term unsecured Notes on December 3, 2008; (iii) the sale and issuance by Granite State to institutional investors in a private placement of $10 million aggregate principal amount of long-term unsecured notes on December 15, 2008; and (iv) the receipt of proceeds from the financing by Northern Utilities of its gas storage inventory contemporaneously with the closing of the Acquisitions. At December 31, 2008, the amount remaining under the bank financing facility was $39.1 million. The Company expects to repay the outstanding balance under the bank financing facility prior to its maturity date of November 1, 2009 by issuing additional equity or debt. The bank financing facility contains customary terms and conditions for credit facilities of this type, including financial covenants. As of December 31, 2008, the Company was in compliance with the financial covenants contained in the bank financing facility.

At December 31, 2008 and December 31, 2007, Unitil had an aggregate of $35.0 million and $18.8 million, respectively, in short-term debt outstanding through bank borrowings (excluding amounts borrowed under the bank financing facility discussed above). On November 26, 2008, Unitil entered into a $60 million, 364-day revolving credit agreement with Bank of America, N.A., as administrative agent, and a syndicate of bank lenders. This facility replaces certain bilateral credit agreements with Bank of America, N.A., and RBS Citizens, N.A. The revolving credit agreement contains a covenant restricting the Company's ability to permit long-term debt to exceed 65% of capitalization at the end of each fiscal quarter. The revolving credit agreement also contains customary terms and conditions for credit facilities of this type, including certain financial covenants. As of December 31, 2008, the Company was in compliance with financial covenants contained in the revolving credit agreement.

On December 15, 2008, the Company issued and sold 2,000,000 shares of its common stock at a price of $20.00 per share in a registered public offering. As part of this offering, the Company granted the underwriters a 30-day over-allotment option to purchase additional shares. The underwriters exercised the over-allotment option and purchased an additional 270,000 shares of the Company's common stock in January 2009. The Company's net proceeds were approximately $43 million (after payment of the underwriting discount, but excluding estimated offering expenses) and were used to repay a portion of the bank financing for the Company's acquisition of Northern Utilities and Granite State, as discussed above, and to repay other short-term indebtedness.

In connection with the Acquisitions, Northern Utilities issued $80.0 million aggregate principal amount of senior unsecured notes on December 3, 2008, and Granite State issued $10.0 million aggregate principal amount of senior unsecured notes on December 15, 2008. The net proceeds from the Northern Utilities and Granite State notes were used to recapitalize Northern Utilities and Granite State and to ultimately repay a portion of the Company's short-term bank financing facility used to fund the purchase price of the Acquisitions. The notes consist of:

(i) $30.0 million aggregate principal amount of 6.95% senior unsecured notes of Northern Utilities, which are due in 2018;

(ii) $50.0 million aggregate principal amount of 7.72% senior unsecured notes of Northern Utilities, which are due in 2038; and

(iii) $10.0 million aggregate principal amount of 7.15% senior unsecured notes of Granite State, which are due in 2018, along with a guarantee from Unitil for the payment of principal, interest and other amounts payable on the Granite State notes. This guarantee will terminate if Granite State is reorganized and merges with and into Northern Utilities.

Contractual Obligations

The table below lists the Company's significant contractual obligations as of December 31, 2008.

		Payments Due by Period			
Significant Contractual Obligations (millions) as of December 31, 2008	**Total**	**2009**	**2010-2011**	**2012-2013**	**2014 & Beyond**
Long-term Debt	$249.7	$ 0.4	$ 0.9	$ 1.0	$247.4
Interest on Long-term Debt	302.0	17.9	35.8	35.6	212.7
Gas Supply Contracts[1]	189.2	72.9	66.6	49.7	—
Power Supply Contract Obligations	52.7	18.1	22.1	9.6	2.9
Other	4.8	1.3	2.1	0.9	0.5
Total Contractual Cash Obligations	$798.4	$110.6	$127.5	$96.8	$463.5

(1) Primarily reflects demand charges associated with natural gas transportation contracts.

The Company and its subsidiaries have material energy supply commitments that are discussed in Note 6 to the accompanying Consolidated Financial Statements. Cash outlays for the purchase of electricity and natural gas to serve customers are subject to reconciling recovery through periodic changes in rates, with carrying charges on deferred balances. From year to year, there are likely to be timing differences associated with the cash recovery of such costs, creating under- or over-recovery situations at any point in time. Rate recovery mechanisms are typically designed to collect the under-recovered cash or refund the over collected cash over subsequent of less than a year.

The Company also provides limited guarantees on certain energy and natural gas storage management contracts entered into by the distribution utilities. The Company's policy is to limit these guarantees to two years or less. As of December 31, 2008 there were $18.0 million of guarantees outstanding and these guarantees extend through October 31, 2009. Of this amount, $15 million is related to Unitil's guarantee of payment for the term of the Northern Utilities' gas storage management agreement, discussed below.

On November 1, 2008, Northern Utilities entered into a gas storage management agreement (the Agreement) pursuant to which (i) Northern Utilities released certain pipeline and storage capacity to an asset manager from November 1, 2008 through April 30, 2009 and (ii) the asset manager financed inventories associated with the released storage capacity from Northern Utilities contemporaneously with the closing of the Acquisitions. The Agreement requires Northern Utilities to repurchase quantities of natural gas over the course of the 2008/2009 winter heating season at a specified price and any remaining balance of the gas inventory on April 30, 2009 at the same price initially paid by the asset manager. The Agreement provides for the Company to issue a guarantee of payment of $15 million for the term of the agreement. There is $24.0 million outstanding at December 31, 2008 related to this Agreement included in Gas Supply Contracts in the Significant Contractual Obligations table above.

The Company also guarantees the payment of principal, interest and other amounts payable on the notes issued by Unitil Realty and Granite State. As of December 31, 2008, the principal amount outstanding for the 8% Unitil Realty notes was $4.7 million. On December 15, 2008, the Company entered into a guarantee for the payment of principal, interest and other amounts payable on the $10 million Granite State notes due 2018, as described above. As of December 31, 2008, the principal amount outstanding for the 7.15% Granite State notes was $10 million. This guarantee will terminate if Granite State reorganizes and merges with and into Northern Utilities.

Benefit Plan Funding

The Company, along with its subsidiaries (other than Northern Utilities and Granite State), made cash contributions to its Pension Plan in the amount of $2.8 million and $2.8 million in 2008 and 2007, respectively. The Company, along with is subsidiaries (other than Northern Utilities and Granite State), contributed $2.7 million and $2.5 million to Voluntary Employee Benefit Trusts (VEBT) in 2008 and 2007, respectively. The Company expects to contribute approximately $4.0 million and $2.7 million, respectively to fund its Pension and PBOP Plans in 2009. The Company, along with its subsidiaries, expects to continue to make contributions to its Pension Plan and the VEBTs in future years in amounts consistent with the amounts recovered in the distribution utilities' rates for these other postretirement benefit costs. (See Note 10 to the accompanying Consolidated Financial Statements.)

Off-Balance Sheet Arrangements

The Company and its subsidiaries do not currently use, and are not dependent on the use of, off-balance sheet financing arrangements such as securitization of receivables or obtaining access to assets or cash through special purpose entities or variable interest entities. Unitil's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their vehicles, machinery and office equipment under both capital and operating lease arrangements. (See Note 5 to the accompanying Consolidated Financial Statements.)

Cash Flows

On December 1, 2008, the Company acquired Northern Utilities and Granite State. Cash flow results for 2008 include one month of activity for the acquired companies, which contributed to the increase in cash flow period over period. Unitil's utility operations, taken as a whole, are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows. The tables below summarize the major sources and uses of cash (in millions) for 2008 and 2007.

(millions)	2008	2007
Cash Provided by Operating Activities	**$47.3**	$26.8

Cash Provided by Operating Activities—Cash Provided by Operating Activities was $47.3 million in 2008, an increase of $20.5 million over the comparable period in 2007. Cash flow from Net Income, adjusted for non-cash charges to depreciation, amortization and deferred taxes, was $36.2 million in 2008, a $10.6 million increase over 2007. Working Capital changes in Current Assets and Liabilities required a $0.7 million use of cash in 2008, an increase in sources of cash of $3.9 million compared to 2007. Deferred Restructuring Charges provided $2.6 million and $3.5 million in cash in 2008 and 2007, respectively, reflecting a net decrease of cash flows of $0.9 million for the collection of deferred costs related to utility industry restructuring. All other items resulted in net sources of cash of $9.2 million and $2.3 million in 2008 and 2007, respectively.

(millions)	2008	2007
Cash (Used in) Investing Activities	**$(238.2)**	$(32.5)

Cash (Used in) Investing Activities—Cash used in Investing Activities was $238.2 million for 2008, an increased use of cash of $205.7 million over 2007, of which $209.9 million was for the Company's acquisitions of Northern Utilities and Granite State on December 1, 2008. The purchase price of the acquisitions was $160 million plus $49.2 million for working capital, including approximately $30 million of natural gas storage inventory. As part of the Acquisitions, the Company acquired cash of $6.9 million and incurred transition and transaction costs of $7.6 million. Capital expenditures for utility property, plant and equipment were $28.3 million in 2008 compared to $32.5 million in 2007, a decrease of $4.2 million. Capital expenditures for ongoing electric and gas operations reflect normal utility plant additions, which were $5.0 million lower in 2008 mainly due to the funding in 2007 of the Advanced Metering Infrastructure project.

(millions)	2008	2007
Cash Provided by Financing Activities	**$197.8**	$5.7

Cash Provided by Financing Activities—Cash provided by Financing Activities was $197.8 million in 2008, an increase of $192.1 million compared to 2007. Sources of cash primarily reflect the financing activity related to the Company's acquisitions of Northern Utilities and Granite State on December 1, 2008. These financing activities (discussed above) included proceeds from the issuance of common stock, the sale and issuance of senior unsecured notes and a bank financing facility. In addition, Cash Provided by Financing Activities also reflect the financing of Northern Utilities' gas inventory and the issuance of short-term debt to fund utility plant additions and working capital requirements. Uses of cash for financing activities primarily reflect regular quarterly dividend payments on common and preferred stock of $8.1 million, and the scheduled repayment of long-term debt of $0.4 million.

FINANCIAL COVENANTS AND RESTRICTIONS

The agreements under which the Company's and its subsidiaries' long-term debt were issued contain various covenants and restrictions. These agreements do not contain any covenants or restrictions pertaining to the maintenance of financial ratios or the issuance of short-term debt. These agreements do contain covenants relating to, among other things, the issuance of additional long-term debt, cross-default provisions and business combinations and covenants restricting the ability to (i) pay dividends, (ii) incur indebtedness and liens, (iii) merge or consolidate with another entity or (iv) sell, lease or otherwise dispose of all or substantially all assets. (See Note 5 to the accompanying Consolidated Financial Statements.)

The long-term debt and preferred stock of Unitil, Unitil Energy, Fitchburg, Northern Utilities, Granite State and Unitil Realty are privately held, and the Company does not issue commercial paper. For these reasons, the debt securities of Unitil and its subsidiaries are not publicly rated.

The Company financed the Acquisitions and the related costs and expenses in part using borrowings under a bank financing facility, as described above. As of December 31, 2008, there was $39.1 million outstanding on this bank financing facility. The bank financing facility contains customary terms and conditions, including, without limitation, covenants restricting the Company's ability to (i) pay dividends, (ii) incur indebtedness and liens, (iii) merge or consolidate with another entity or (iv) sell, lease or otherwise dispose of all or substantially all assets.

On November 26, 2008, Unitil entered into a $60 million, 364-day revolving credit agreement. The revolving credit agreement contains customary terms and conditions for credit facilities of this type, including certain financial covenants, including, without limitation, covenants restricting the Company's ability to incur liens, merge or consolidate with another entity or change its line of business. The revolving credit agreement also contains a covenant restricting the Company's ability to permit long-term debt to exceed 65% of capitalization at the end of each fiscal quarter.

The Company and its subsidiaries are currently in compliance with all such covenants in these debt instruments.

DIVIDENDS

Unitil's annualized common dividend was $1.38 per common share in 2008, 2007 and 2006. Unitil's dividend policy is reviewed periodically by the Board of Directors. Unitil has maintained an unbroken record of quarterly dividend payments since trading began in Unitil's common stock. At its January, 2009 meeting, the Unitil Board of Directors declared a quarterly dividend on the Company's common stock of $0.345 per share. The amount and timing of all dividend payments are subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial conditions and other factors.

LEGAL PROCEEDINGS

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. The Company believes, based upon information furnished by counsel and others, the ultimate resolution of these claims will not have a material impact on the Company's financial position.

A putative class action complaint was filed against Fitchburg on January 7, 2009 in Worcester Superior Court in Worcester, Massachusetts, captioned Bellerman v. Fitchburg Gas and Electric Light Company. The complaint seeks an unspecified amount of damages including the cost of temporary housing and alternative fuel sources, emotional and physical pain and suffering and property damages allegedly incurred by customers in connection with the loss of electric service during the ice storm in Fitchburg's service territory in December, 2008. As of this date the complaint has not been served on Fitchburg. The Company believes this complaint is without merit, and will defend itself vigorously.

REGULATORY MATTERS

Overview (Unitil Energy, Fitchburg, and Northern Utilities)—Unitil's distribution utilities deliver electricity and/or natural gas to customers in the Company's service territory, at rates established under traditional cost of service regulation. Under this regulatory structure, Unitil Energy, Fitchburg, and Northern Utilities recover the cost of providing distribution service to their customers based on a representative test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in New Hampshire, Massachusetts and Maine, most Unitil customers have the opportunity to purchase their electric or natural gas supplies from third-party suppliers. For Northern Utilities, only business customers have the opportunity to purchase their natural gas supplies from third-party suppliers at this time. Most small and medium-sized customers, however, continue to purchase such supplies through Unitil Energy, Fitchburg and Northern Utilities as the providers of basic or default service energy supply. Unitil Energy, Fitchburg and Northern Utilities purchase electricity or natural gas for basic or default service from unaffiliated wholesale suppliers and recover the actual costs of these supplies, without profit or markup, through reconciling, pass-through rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, Unitil Power and Fitchburg divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next two to four years, is $81.9 million as of December 31, 2008 including $22.1 million in Accrued Revenue on the Company's Consolidated Balance Sheet. Unitil's distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans. See Note 7 for additional information on these filings.

Unitil Energy—On January 22, 2008, the NHPUC issued an order in its investigation into implementation of the federal Energy Policy Act of 2005 regarding the adoption of standards for time-based metering and interconnection. The NHPUC determined that it is appropriate to implement some form of time-based metering standards and ordered that the details, including cost-benefit analyses, form of rate design, time of implementation and applicable customer classes are to be determined in separate proceedings initiated by the NHPUC. The NHPUC also found that additional review of the energy standards for net metering, fuel diversity and fossil fuel generation efficiency as proposed in the Energy Policy Act of 2005 is not required due to action of the New Hampshire legislature and the NHPUC in adopting comparable standards.

On May 14, 2007, the NHPUC issued an order opening an investigation into the merits of instituting appropriate rate mechanisms, such as revenue decoupling, which would have the effect of removing obstacles to, and encouraging investment in, energy efficiency. On January 16, 2009, the NHPUC issued its decision in this matter, concluding that such rate mechanisms should only be implemented on a company-by-company basis in the context of an examination of company specific costs and revenues, service territory, customer mix and rate base investment.

In July 2008, the State of New Hampshire enacted legislation that allows electric utilities to make investments in distributed energy resources, including energy efficiency and demand reduction technologies, as well as clean cogeneration and renewable generation.

Fitchburg—Electric Operations—The Company received a final order from the MDPU on February 29, 2008 approving an electric rate increase of $2.1 million, effective March 1, 2008.

Major Ice Storm—On December 11 and 12, 2008, a severe ice storm struck the New England region, causing extensive damage to electric facilities and loss of service to significant numbers of customers of several utilities. An estimated one million electric customers in the region were affected, including all of Unitil's 28,000 Massachusetts customers, and approximately half of its New Hampshire customers. Unitil was able to restore power to one-third of its Massachusetts customers within three days, and 80 percent of its customers by day seven, and the final Massachusetts customers, including those with individual service problems, were restored by day 13, December 24, 2008. On January 7, 2009, the MDPU opened an investigation into the preparation and response of the Massachusetts electric distribution companies to the December 12, 2008 Winter Storm. Each electric distribution company has been ordered to file a report detailing its response to the storm and outages, and its service restoration efforts with the MDPU by February 23, 2009. Public hearings have been held in each of the electric distribution utilities' service areas in Massachusetts. Based on its preliminary assessment, the Company has accrued and deferred approximately $10 million in costs for the repair and replacement of electric distribution systems damaged during the storm. The amount and timing of the cost recovery of these storm restoration expenditures will be determined in future regulatory proceedings. The Company does not believe these storm restoration expenditures and the timing of cost recovery will have a material adverse impact on the Company's financial condition or results of operations. This matter remains pending.

Fitchburg—Gas Operations—Fitchburg provides natural gas delivery service to its customers on a firm or interruptible basis under unbundled distribution rates approved by the MDPU. Its current distribution rates were approved by the MDPU in 2007. Fitchburg's customers may purchase natural gas supplies from third-party vendors or purchase their natural gas from Fitchburg as the provider of last resort. Fitchburg collects its natural gas supply costs through a seasonal reconciling Cost of Gas Adjustment Clause and recovers other related costs through a reconciling Local Distribution Adjustment Clause.

Fitchburg—Other—On June 22, 2007, the MDPU opened an inquiry into revenue decoupling for gas and electric distribution utilities, generally defined as a ratemaking mechanism designed to eliminate or reduce the dependence of a utility's distribution revenues on sales. Revenue decoupling is intended to remove the disincentive a utility has to promote efforts to reduce energy consumption by its customers or to facilitate installation of distributed generation to displace electricity delivered by the utility. On July 16, 2008, the MDPU issued an order establishing a comprehensive plan for decoupling to be adopted by gas and electric distribution utilities on a going-forward basis, including company specific rate cases. Lost base revenue recovery associated with incremental energy efficiency savings will be allowed through 2012 consistent with the MDPU's expectation that, with limited exceptions, distribution companies will be operating under decoupling plans by year-end 2012. Each distribution company was required to notify the MDPU of when the company expects to file a rate case to implement decoupling. Fitchburg notified the MDPU that it will be prepared to file rate cases for each of its divisions by the third quarter of 2009, based upon a calendar 2008 test year, along with a comprehensive decoupling proposal and associated base rate adjustment mechanism. This matter remains pending before the MDPU.

On July 2, 2008, the Governor of Massachusetts signed into law "*The Green Communities Act*" (the GC Act), an energy policy legislation designed to substantially increase energy efficiency and the development of renewable energy resources in Massachusetts. The GC Act includes provisions that:

- Require electric and natural gas distribution companies to file three-year energy efficiency investment plans designed to implement all available cost-effective energy efficiency and demand reduction resources; the plans are to include fully reconciling funding mechanisms;
- Require utility distribution companies to undertake various Green programs, including the solicitation of bids for long-term renewable energy procurement contracts for which utilities would be allowed remuneration on certain contract commitments;

- Establishes expanded authority for the MDPU to investigate mergers involving holding companies of public utilities;
- Increase the Renewable Portfolio Standard by 1% annually, requiring that by the year 2020 utilities and other electricity suppliers obtain 15% of the power they sell from renewable resources;
- Authorize electric distribution companies to construct, own, and operate up to 50 megawatts of solar generating capacity; and
- Modify the service quality performance penalty provision.

The GC Act provides for utilities to recover in rates the incremental costs associated with its various mandated programs.

Northern Utilities Acquisition: On December 1, 2008 Unitil completed the purchase of Northern Utilities from Bay State and Granite State from NiSource. Joint petitions on behalf of Unitil and Northern Utilities requesting approval of the purchase of Northern Utilities by Unitil were filed with the NHPUC and the MPUC on March 31, 2008. State regulatory approvals of Unitil's purchase of Granite State were not required. In August 2008, unopposed settlement agreements resolving all outstanding issues and recommending approval of the acquisition were filed with the MPUC and NHPUC on behalf of Unitil, Northern Utilities and the active parties to the respective Maine and New Hampshire proceedings. The NHPUC approved the transaction on October 10, 2008. The MPUC issued an order approving the transaction on November 5, 2008.

Although separately negotiated and filed with the MPUC and the NHPUC, the settlement agreements reflect several common topics (including regulatory authorizations, matters affecting rates, customer service provisions, service quality, gas safety and reliability, agreements regarding Granite State and reporting requirements) as follows:

The settlement agreements include the following authorizations and approvals:

- approval of Unitil's acquisition of Northern Utilities;
- approval of the amended Unitil Service Agreement adding Northern Utilities as a party;
- approval of the amended Unitil Cash Pooling Agreement adding Northern Utilities as a party; and
- approval of Northern Utilities' accounting deferral and 10-year amortization of transaction costs and transition costs resulting from the Company's acquisition of Northern Utilities and the Company's agreement not to seek recovery of these costs, or the transaction or transition costs of any other utility subsidiary, in rates.

The settlement agreements include the following commitments related to rates:

- agreement that synergy savings resulting from our acquisition of Northern Utilities will be retained by the Company until the next base rate change and then will flow to customers;
- agreement not to request a base rate change for Northern Utilities before November 1, 2010 unless (i) Northern Utilities' projected annual revenues are more than 8% below the level of total 2007 distribution revenues or (ii) the MPUC or NHPUC, as applicable, approves a plan to subject Granite State's rates to state regulation;
- agreement to allow Northern Utilities to recover prudently incurred integration costs for capitalized expenditures to build or upgrade systems or facilities required to independently operate Northern Utilities;
- agreement not to seek recovery in Northern Utilities' rates of any acquisition premium resulting from Unitil's acquisition of Northern Utilities and that any acquisition adjustment (positive or negative) shall be accounted for below the line for ratemaking purposes over a 10-year period;
- agreement to hold Northern Utilities' customers harmless for the elimination of historical accumulated deferred income tax (ADIT) liabilities resulting from its Internal Revenue Service Section 338(h)(10) election;

- agreement to use an imputed weighted cost of debt for ratemaking purposes until Northern Utilities' existing debt instruments would have matured; and

- agreement not to change Northern Utilities' existing depreciation rates for its Maine division until approved in the next general rate case.

The settlement agreements also contain the following commitments related to customers:

- agreement to implement a Low Income Program for Northern Utilities' Maine division, to provide additional customer payment options (including credit or debit cards and by internet and telephone) for Maine customers and to continue low income programs in Northern Utilities' New Hampshire division;
- agreement to review with the parties to the settlements communications that we develop to inform Northern Utilities' customers about our acquisition of Northern Utilities and to keep them apprised of the transition; and
- with respect to Maine, agreement to conduct a study of alternatives for the sale, lease, or use of the unused Portland manufactured gas site property that would best serve ratepayers' interests.

The settlement agreements contain the following commitments related to service quality, gas safety and reliability:

- agreement to improve and adhere to Northern Utilities' existing service quality plans in each jurisdiction; and
- agreement to provide notifications and safety reports based on several service quality and gas safety metrics, as well as implementing gas operations programs and practices.

The settlement agreements contain the following commitments related to Granite State:

- agreement to work collaboratively with the parties to the settlements to design and to conduct a comprehensive study of the issues and costs for modification of the physical, operational, regulatory, and corporate structure necessary for state regulation of Granite State and to provide a report within one year of the closing; and
- authorization for Northern Utilities to execute a firm service contract with Granite State for 100,000 Dekatherms (Dth) of capacity at Granite State's current recourse rate of $1.6666/ Dth for the period November 1, 2008 through October 31, 2010.

The settlement agreements contain the following commitments regarding affiliate books and records and transaction reporting:

- agreement to provide timely access to the books and records of any of Northern Utilities' affiliates at the discretion of the MPUC or the NHPUC, as applicable;
- agreement to file reports on our transition progress, business integration, costs, the Transition Services Agreement and costs while our acquisition of Northern Utilities was pending; and
- agreement to notify the MPUC and the NHPUC of any substantial changes in the financing terms.

In Massachusetts, the GC Act expanded the authority of the MDPU to review holding company mergers and sales of subsidiaries to determine how such transactions would affect the holding companies' Massachusetts' utility operating companies and their ratepayers. Unitil and Bay State filed a joint Petition with the MDPU on August 13 seeking an advisory determination that the recent statutory amendment was inapplicable to the proposed sale, or, alternatively, sought approval of the proposed sale. The MDPU declined to issue the advisory ruling, and determined that it had the requisite authority to review the transaction. After investigation and hearing, the MDPU issued its approval of the transaction on November 18, 2008.

Northern Utilities—Notices of Probable Violation—Beginning in October 2007, the MPUC initiated formal investigations into a number of Notices of Probable Violation (NOPVs) alleging that Northern

Utilities had violated various provisions of the federal pipeline safety regulations, as adopted by the MPUC. Northern Utilities, the MPUC Staff and Unitil filed a comprehensive settlement (Settlement), which was approved by the MPUC on November 21, 2008, resolving these matters. Under the Settlement, Northern Utilities will incur total expenditures of approximately $3.8 million for certain safety related improvements for which no rate recovery will be allowed and obligations to be undertaken for Northern Utilities' distribution system to ensure compliance with the relevant state and federal gas safety laws. These compliance costs were accrued by Northern Utilities prior to the acquisition date and the remaining amount on the Company's balance sheet at December 31, 2008 was $3.1 million.

Northern Utilities—NH 2007/2008 Winter Cost of Gas—On October 31, 2007, the NHPUC issued Order No. 24,798 concerning the 2007/2008 winter cost of gas proceeding for Northern Utilities' New Hampshire division. In that order, the NHPUC noted that Northern Utilities had identified an unusually high level of lost and unaccounted for gas (UAFG), and ordered Northern Utilities to file a detailed report concerning its investigation of this matter. Through its investigation, Northern Utilities determined that the unaccounted for gas affected both its New Hampshire and Maine divisions, and that the cause appeared to be incorrect metering at the Maritimes & Northeast (M&NE) / Portland Natural Gas Transmission System's (PNGTS) Newington Gate Station caused by an erroneous meter module change. The metering equipment was operated and maintained by a third party, Spectra Energy, the parent company of M&NE. PNGTS and M&NE share joint ownership of the section of the pipeline connected to Granite State at the Newington Gate Station. The error caused Granite State to be billed for 758,702 Dth of natural gas, with Granite State then billing Northern Utilities for an equivalent amount, although the volumes of gas were not actually consumed. The meter error was corrected and Northern Utilities, Granite State, Spectra Energy and PNGTS reached an agreement whereby PNGTS will provide to Northern Utilities, through Granite State, gas volumes equal to the misread amounts to correct for the error, over a period of approximately 18 months. Both the NHPUC and the MPUC have approved this arrangement, as well as Northern Utilities' methodology for allocating the gas received to its Maine and New Hampshire divisions based upon the actual gas use over the period the meters were misread. As of December 31, 2008, Northern Utilities has recorded approximately $4.0 million reflecting the anticipated liability of the future refund amount based on current market prices with an offsetting receivable from Granite State.

See Note 7 to the accompanying Consolidated Financial Statements for additional information on Regulatory Matters.

ENVIRONMENTAL MATTERS

The Company's past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. The Company believes it is in compliance with applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2008, there were no material losses reasonably likely to be incurred in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Fitchburg's Manufactured Gas Plant Site—Fitchburg continues to work with environmental regulatory agencies to identify and assess environmental issues at the former MGP site at Sawyer Passway, located in Fitchburg, Massachusetts. Fitchburg has proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection, which allows Fitchburg to work towards temporary closure of the site. A status of temporary closure requires Fitchburg to monitor the site until a feasible permanent remediation alternative can be developed and completed.

Fitchburg recovers the environmental response costs incurred at this former MGP site not recovered by insurance or other means in gas rates pursuant to terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, Fitchburg is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs. In addition, Fitchburg has filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. Any recovery that Fitchburg receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between Fitchburg and its gas customers.

Northern Utilities' Manufactured Gas Plant Sites—Northern Utilities has an extensive program to identify, investigate and remediate former MGP sites that were operated from the mid 1800s through the mid 1900s. In New Hampshire, MGP sites were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. This program has also documented the presence of MGP sites in Lewiston and Portland, Maine and a former MGP disposal site in Scarborough, Maine. Northern Utilities has worked with the environmental regulatory agencies in both New Hampshire and Maine to address environmental concerns with these sites.

The NHPUC and MPUC have approved the recovery of MGP environmental costs. For Northern Utilities' New Hampshire division, the NHPUC approved the recovery of MGP environmental costs over a seven-year amortization period. Northern Utilities believes material future costs will be recovered. For Northern Utilities' Maine division, the MPUC authorized the recovery of environmental remediation costs over a rolling five-year amortization schedule.

See Note 7 to the accompanying Consolidated Financial Statements for additional information on Environmental Matters.

EMPLOYEES AND EMPLOYEE RELATIONS

As of December 31, 2008, the Company and its subsidiaries had 406 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

As of December 31, 2008, 144 of the Company's employees were represented by labor unions. These employees are covered by collective bargaining agreements. Two of these agreements expire on March 31, 2009, two agreements expire on May 31, 2010, and one agreement expires on June 5, 2010. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. The Company expects to successfully negotiate new agreements prior to their expiration dates.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In making those estimates and assumptions, the Company is sometimes required to make difficult, subjective and/or complex judgments about the impact of matters that are inherently uncertain and for which different estimates that could reasonably have been used could have resulted in material differences in its financial statements. If actual results were to differ significantly from those estimates, assumptions and judgment, the financial position of the Company could be materially affected and the results of operations of the Company could be materially different than reported. The following is a summary of the Company's most critical accounting policies, which are defined as those policies where judgments or uncertainties could materially affect the application of those policies. For a complete discussion of the Company's significant accounting policies, refer to the financial statements and Note 1: Summary of Significant Accounting Policies.

Regulatory Accounting—The Company's principal business is the distribution of electricity and natural gas by the three distribution utilities: Unitil Energy, Fitchburg and Northern Utilities. Unitil Energy and Fitchburg are subject to regulation by the FERC. Fitchburg is also regulated by the MDPU, Unitil Energy is regulated by the NHPUC and Northern Utilities is regulated by the MPUC and NHPUC. Granite State, the Company's natural gas transmission pipeline, is regulated by the FERC. Accordingly, the Company uses the provisions of FASB Statement No. 71, "Accounting for the Effects of Certain Types of Regulation." (SFAS No. 71). In accordance with SFAS No. 71, the Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

SFAS No. 71 specifies the economic effects that result from the cause and effect relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or "regulatory assets" under SFAS No. 71. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or "regulatory liabilities" under SFAS No. 71.

The Company's principal regulatory assets and liabilities are detailed on the Company's Consolidated Balance Sheet and a summary of the Company's Regulatory Assets is provided in Note 1 thereto. The Company receives a return on investment on its regulated assets for which a cash outflow has been made. Regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company's consolidated financial statements.

The Company believes it is probable that its regulated distribution and transmission utilities will recover their investments in long-lived assets, including regulatory assets. If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of SFAS No. 71. If unable to continue to apply the provisions of SFAS No. 71, the Company would be required to apply the provisions of FASB Statement No. 101, "Regulated Enterprises—Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71." In the Company's opinion, its regulated operations will be subject to SFAS No. 71 for the foreseeable future.

Utility Revenue Recognition—Regulated utility revenues are based on rates and charges approved by federal and state regulatory commissions. Revenues related to the sale of electric and gas service are recorded when service is rendered or energy is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on estimated customer usage by class and applicable customer rates.

Allowance for Doubtful Accounts—The Company recognizes a provision for doubtful accounts each month based upon the Company's experience in collecting electric and gas utility service accounts receivable in prior years. At the end of each month, an analysis of the delinquent receivables is performed which takes into account an assumption about the cash recovery of delinquent receivables. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company's distribution utilities are authorized by regulators to recover the costs of their energy commodity portion of bad debts through rate mechanisms. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis, including expected fuel assistance payments from governmental authorities and the level of customers enrolling in payment plans with the Company. It has been the Company's experience that the assumptions it has used in evaluating the adequacy of the Allowance for Doubtful Accounts have proven to be reasonably accurate.

Retirement Benefit Obligations—The Company sponsors the Unitil Corporation Retirement Plan (Pension Plan), which is a defined benefit pension plan covering substantially all of its employees. The Company also sponsors an unfunded retirement plan, the Unitil Corporation Supplemental Executive Retirement Plan (SERP), covering certain executives of the Company and an employee 401(k) savings plan. Additionally, the Company sponsors the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan), primarily to provide health care and life insurance benefits to retired employees.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", (SFAS No. 158), an amendment of SFAS No. 87, "Employers' Accounting for Pensions", SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of

Defined Benefit Pension Plans and for Termination Benefits," SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions" and SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 158 requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas rates.

The Company's reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. The Company has made critical estimates related to actuarial assumptions, including assumptions of expected returns on plan assets, future compensation, health care cost trends, and appropriate discount rates. The Company's RBO are affected by actual employee demographics, the level of contributions made to the plans, earnings on plan assets, and health care cost trends. Changes made to the provisions of these plans may also affect current and future costs.

The Company's RBO may also be significantly affected by changes in key actuarial assumptions, including, anticipated rates of return on plan assets and the discount rates used in determining the Company's RBO. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status and net periodic benefit costs could have a material impact on the Company's financial statements. The discount rate assumptions used in determining retirement plan costs and retirement plan obligations are based on a market average of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. For the years ended December 31, 2008 and 2007, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $200,000 in the Net Periodic Benefit Cost for the Pension Plan. For the years ended December 31, 2008 and 2007, a 1.0% increase in the assumption of health care cost trend rates would have resulted in increases in the Net Periodic Benefit Cost for the PBOP Plan of $675,000 and $690,000, respectively. Similarly, a 1.0% decrease in the assumption of health care cost trend rates for those same time periods would have resulted in decreases in the Net Periodic Benefit Cost for the PBOP Plan of $531,000 and $539,000, respectively. (See Note 10 to the accompanying Consolidated Financial Statements).

Income Taxes—Provisions for income taxes are calculated in each of the jurisdictions in which the Company operates for each period for which a statement of earnings is presented. This process involves estimating the Company's current tax liabilities as well as assessing temporary and permanent differences resulting from the timing of the deductions of expenses and recognition of taxable income for tax and book accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheets. The Company accounts for income tax assets, liabilities and expenses in accordance with FASB Statement No. 109, "Accounting for Income Taxes" (SFAS No. 109) and under FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), an interpretation of FAS 109.

Depreciation—Depreciation expense is calculated on a group straight-line basis based on the useful lives of assets and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company's fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company's consolidated financial statements.

Commitments and Contingencies—The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with SFAS No. 5. SFAS No. 5 applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2008, the Company is not aware of any material commitments or contingencies other than those disclosed in the Significant Contractual Obligations table in the Contractual Obligations section above and the Commitments and Contingencies footnote to the Company's consolidated financial statements below.

Refer to "Recently Issued Accounting Pronouncements' in Note 1 of the Notes of Consolidated Financial Statements for information regarding recently issued accounting standards.

For further information regarding these types of activities, see Note 1, "Summary of Significant Accounting Policies," Note 9, "Income Taxes," Note 6, "Energy Supply," Note 10, "Benefit Plans," and Note 7, "Commitment and Contingencies," to the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Please also refer to Item 1A. "Risk Factors".

INTEREST RATE RISK

As discussed above, Unitil meets its external financing needs by issuing short-term and long-term debt. The majority of debt outstanding represents long-term notes bearing fixed rates of interest. Changes in market interest rates do not affect interest expense resulting from these outstanding long-term debt securities. However, the Company periodically repays its short-term debt borrowings through the issuance of new long-term debt securities. Changes in market interest rates may affect the interest rate and corresponding interest expense on any new issuances of long-term debt securities. In addition, short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease interest expense in future periods. For example, if the average amount of short-term debt outstanding was $25 million for the period of one year, a change in interest rates of 1% would result in a change in annual interest expense of approximately $250,000. The average interest rate on short-term borrowings was 3.8%, 5.6%, and 5.5% during 2008, 2007, and 2006, respectively.

MARKET RISK

Although Unitil's three distribution utilities are subject to commodity price risk as part of their traditional operations, the current regulatory framework within which these companies operate allows for full collection of electric power and natural gas supply costs in rates on a pass-through basis. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, as discussed above and below in Regulatory Matters, the Company has divested its commodity-related contracts and therefore, further reduced its exposure to commodity risk.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders of Unitil Corporation:

We have audited the accompanying consolidated balance sheets of Unitil Corporation and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of earnings, cash flows and changes in common stock equity for each of the years ended December 31, 2008, 2007 and 2006. We also have audited Unitil Corporation and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Northern Utilities, Inc. and Granite State Gas Transmission, Inc., businesses acquired by the Company during the year ended December 31, 2008, which are included in the 2008 consolidated financial statements of the Company and constituted approximately $273.7 million and $161.2 million of total and net assets, respectively, as of December 31, 2008 and approximately $22.2 million and $1.9 million of revenues and net income respectively, for the year ended December 31, 2008. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Northern Utilities, Inc. and Granite State Gas Transmission, Inc.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unitil Corporation and subsidiaries as of December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Unitil Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Vitale, Caturano & Company, P.C.

Boston, Massachusetts
February 13, 2009

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CONSOLIDATED STATEMENTS OF EARNINGS

(Millions, except common shares and per share data)

Year Ended December 31,	**2008**	**2007**	**2006**
Operating Revenues:			
Electric	**$227.5**	$225.0	$225.2
Gas	**56.9**	34.2	33.3
Other	**3.8**	3.7	2.4
Total Operating Revenues	**288.2**	262.9	260.9
Operating Expenses:			
Purchased Electricity	**170.1**	165.4	167.3
Purchased Gas	**37.3**	21.3	22.4
Operation and Maintenance	**27.5**	26.2	25.7
Conservation & Load Management	**2.8**	3.6	3.8
Depreciation and Amortization	**19.1**	17.8	16.1
Provisions for Taxes:			
Local Property and Other	**6.5**	5.6	5.5
Federal and State Income	**4.4**	4.5	4.3
Total Operating Expenses	**267.7**	244.4	245.1
Operating Income	**20.5**	18.5	15.8
Other Non-Operating Expenses	**0.3**	0.2	—
Income Before Interest Expense	**20.2**	18.3	15.8
Interest Expense, net	**10.5**	9.6	7.8
Net Income	**9.7**	8.7	8.0
Less Dividends on Preferred Stock	**0.1**	0.1	0.1
Earnings Applicable to Common Shareholders	**$ 9.6**	$ 8.6	$ 7.9
Average Common Shares Outstanding (000's)—Basic	**5,830**	5,659	5,597
Average Common Shares Outstanding (000's)—Diluted	**5,830**	5,672	5,612
Earnings per Common Share—Basic and Diluted	**$ 1.65**	$ 1.52	$ 1.41

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

CONSOLIDATED BALANCE SHEETS *(Millions)*

ASSETS

December 31,	2008	2007
Utility Plant:		
Electric	**$289.0**	$266.2
Gas	**304.2**	67.8
Common	**30.5**	26.2
Construction Work in Progress	**17.7**	20.3
Utility Plant	**641.4**	380.5
Less: Accumulated Depreciation	**218.6**	131.6
Net Utility Plant	**422.8**	248.9
Current Assets:		
Cash	**11.5**	4.6
Accounts Receivable—(Net of Allowance for Doubtful Accounts of $3.0 and $1.3)	**39.7**	24.9
Accrued Revenue	**58.9**	36.7
Gas Inventory	**31.6**	2.7
Material and Supplies	**2.7**	1.8
Prepayments and Other	**5.9**	2.2
Total Current Assets	**150.3**	72.9
Noncurrent Assets:		
Regulatory Assets	**146.2**	146.5
Other Noncurrent Assets	**15.9**	6.3
Total Noncurrent Assets	**162.1**	152.8
TOTAL	**$735.2**	$474.6

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

CONSOLIDATED BALANCE SHEETS (cont.) (Millions)

CAPITALIZATION AND LIABILITIES

December 31,	2008	2007
Capitalization:		
Common Stock Equity	**$139.5**	$100.4
Preferred Stock	**2.0**	2.1
Long-Term Debt, Less Current Portion	**249.3**	159.6
Total Capitalization	**390.8**	262.1
Current Liabilities:		
Long-Term Debt, Current Portion	**0.4**	0.4
Accounts Payable	**36.3**	17.6
Short-Term Debt	**74.1**	18.8
Energy Supply Contract Obligations	**42.0**	20.0
Other Current Liabilities	**35.8**	7.3
Total Current Liabilities	**188.6**	64.1
Deferred Income Taxes	**31.1**	33.4
Noncurrent Liabilities:		
Energy Supply Contract Obligations	**34.6**	52.7
Retirement Benefit Obligations	**67.4**	48.2
Environmental Obligations	**12.3**	12.0
Other Noncurrent Liabilities	**10.4**	2.1
Total Noncurrent Liabilities	**124.7**	115.0
TOTAL	**$735.2**	$474.6

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

CONSOLIDATED STATEMENTS OF CASH FLOWS *(Millions)*

Year Ended December 31,	2008	2007	2006
Operating Activities:			
Net Income	**$ 9.7**	$ 8.7	$ 8.0
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:			
Depreciation and Amortization	**19.1**	17.8	16.1
Deferred Taxes Provision	**7.4**	(0.9)	0.5
Changes in Current Assets and Liabilities:			
Accounts Receivable	**(6.4)**	(2.4)	1.1
Accrued Revenue	**(10.3)**	1.1	(4.9)
Accounts Payable	**11.4**	(2.2)	(0.8)
All Other Current Assets and Liabilities	**4.6**	(1.1)	0.8
Deferred Restructuring Charges	**2.6**	3.5	(2.0)
Other, net	**9.2**	2.3	1.6
Cash Provided by Operating Activities	**47.3**	26.8	20.4
Investing Activities:			
Property, Plant and Equipment Additions	**(28.3)**	(32.5)	(33.6)
Acquisitions, net (See Note 3)	**(209.9)**	—	—
Cash (Used In) Investing Activities	**(238.2)**	(32.5)	(33.6)
Financing Activities:			
Proceeds from (Repayment of) Short-Term Debt	**55.3**	(7.2)	7.3
Proceeds from Issuance of Long-Term Debt	**90.0**	20.0	15.0
Repayment of Long-Term Debt	**(0.4)**	(0.3)	(0.3)
Net Increase in Gas Inventory Financing	**24.0**	—	—
Dividends Paid	**(8.1)**	(7.9)	(7.9)
Proceeds from Issuance of Common Stock	**37.4**	1.5	1.0
Other, net	**(0.4)**	(0.4)	(0.5)
Cash Provided by Financing Activities	**197.8**	5.7	14.6
Net Increase in Cash	**6.9**	—	1.4
Cash at Beginning of Year	**4.6**	4.6	3.2
Cash at End of Year	**$ 11.5**	$ 4.6	$ 4.6
Supplemental Information:			
Interest Paid	**$ 12.5**	$ 12.2	$ 10.7
Income Taxes Paid (Refunded)	**$ (0.5)**	$ 5.3	$ 3.1

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

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

(Millions)

	Common Equity	Retained Earnings	Total
Balance at January 1, 2006	$ 62.2	$34.1	**$ 96.3**
Net Income for 2006		8.0	**8.0**
Dividends		(7.8)	**(7.8)**
Shares Issued Under Stock Plans	0.3		**0.3**
Issuance of 40,365 Common Shares	1.0		**1.0**
Balance at December 31, 2006	63.5	34.3	**97.8**
Net Income for 2007		8.7	**8.7**
Dividends		(7.9)	**(7.9)**
Shares Issued Under Stock Plans	0.8		**0.8**
Issuance of 38,303 Common Shares	1.0		**1.0**
Balance at December 31, 2007	65.3	35.1	**100.4**
Net Income for 2008		9.7	**9.7**
Dividends		(8.0)	**(8.0)**
Shares Issued Under Stock Plans	0.4		**0.4**
Issuance of 32,754 Common Shares	0.8		**0.8**
Issuance of 2,000,000 Common Shares (See Note 4)	36.2		**36.2**
Balance at December 31, 2008	**$102.7**	**$36.8**	**$139.5**

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

Note 1: Summary of Significant Accounting Policies

Nature of Operations—Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005. The following companies are wholly-owned subsidiaries of Unitil: Unitil Energy Systems, Inc. (Unitil Energy), Fitchburg Gas and Electric Light Company (Fitchburg), Northern Utilities, Inc. (Northern Utilities), Granite State Gas Transmission, Inc. (Granite State), Unitil Power Corp. (Unitil Power), Unitil Realty Corp. (Unitil Realty), Unitil Service Corp. (Unitil Service) and its non-regulated business unit Unitil Resources, Inc. (Unitil Resources). Usource, Inc. and Usource L.L.C. are subsidiaries of Unitil Resources.

On December 1, 2008, the Company purchased: (i) all of the outstanding capital stock of Northern Utilities, a natural gas distribution utility serving customers in Maine and New Hampshire, from Bay State Gas Company (Bay State) and (ii) all of the outstanding capital stock of Granite State, an interstate gas transmission pipeline company primarily serving the needs of Northern Utilities, from NiSource, Inc. (NiSource) pursuant to the Stock Purchase Agreement dated as of February 15, 2008 by and among NiSource, Bay State, and Unitil (the Acquisitions). Bay State is a wholly owned subsidiary of NiSource.

Unitil's principal business is the local distribution of electricity in the southeastern seacoast and capital city areas of New Hampshire and the greater Fitchburg area of north central Massachusetts and the local distribution of natural gas in southeastern New Hampshire, portions of southern Maine to the Lewiston-Auburn area and in the greater Fitchburg area of north central Massachusetts. Unitil has three distribution utility subsidiaries, Unitil Energy, which operates in New Hampshire, Fitchburg, which operates in Massachusetts and Northern Utilities, which operates in New Hampshire and Maine (collectively referred to as the "distribution utilities").

Granite State is an interstate natural gas transmission pipeline company, operating 87 miles of underground gas transmission pipeline primarily located in Maine, New Hampshire and Massachusetts. Granite State provides Northern Utilities with interconnection to three major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and, to a lesser extent, third-party marketers.

A fifth utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for Unitil Energy. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of Unitil Energy on May 1, 2003 and divested of its long-term power supply contracts through the sale of the entitlements to the electricity associated with various electric power supply contracts it had acquired to serve Unitil Energy's customers.

Unitil also has three other wholly-owned subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology, energy management and management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company's corporate office in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Resources is the Company's wholly owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to large commercial and industrial customers in the northeastern United States.

Basis of Presentation

Principles of Consolidation—In accordance with current accounting pronouncements, the Company's consolidated financial statements include the accounts of Unitil and all of its wholly owned subsidiaries and all intercompany transactions are eliminated in consolidation. The operations of Northern Utilities and Granite State are included in the Company's consolidated financial statements from December 1, 2008 through December 31, 2008.

Regulatory Accounting—The Company's principal business is the distribution of electricity and natural gas by the three distribution utilities: Unitil Energy, Fitchburg and Northern Utilities. Unitil Energy and Fitchburg are subject to regulation by the FERC. Fitchburg is also regulated by the MDPU, Unitil Energy is regulated by the NHPUC and Northern Utilities is regulated by the MPUC and NHPUC. Granite State, the Company's natural gas transmission pipeline, is regulated by the FERC. Accordingly, the Company uses the provisions of FASB Statement No. 71, "Accounting for the Effects of Certain Types of Regulation." (SFAS No. 71). In accordance with SFAS No. 71, the Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

	December 31,	
Regulatory Assets consist of the following (millions)	**2008**	**2007**
Energy Supply Contract Obligations	**$ 52.7**	$ 72.7
Deferred Restructuring Costs	**28.3**	30.5
Generation-related Assets	**0.8**	1.6
Subtotal—Restructuring Related Items	**81.8**	104.8
Retirement Benefit Obligations	**45.5**	35.1
Income Taxes	**16.0**	14.6
Environmental Obligations	**19.7**	13.1
Other	**10.1**	2.9
Total Regulatory Assets	**$173.1**	$170.5
Less: Current Portion of Regulatory Assets (1)	**26.9**	24.0
Regulatory Assets—noncurrent	**$146.2**	$146.5

(1) Reflects amounts included in Accrued Revenue on the Company's Consolidated Balance Sheets.

The Company receives a return on investment on its regulated assets for which a cash outflow has been made. Regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company's consolidated financial statements. The Company believes it is probable that its regulated distribution and transmission utilities will recover their investments in long-lived assets, including regulatory assets. If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of SFAS No. 71. If unable to continue to apply the provisions of SFAS No. 71, the Company would be required to apply the provisions of FASB Statement No. 101, "Regulated Enterprises—Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71." In the Company's opinion, its regulated operations will be subject to SFAS No. 71 for the foreseeable future.

Cash—Cash includes all cash and cash equivalents to which the Company has legal title. Cash equivalents include short-term investments with original maturities of three months or less and interest bearing deposits. The Company's cash and cash equivalents are held at financial institutions and at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. Under the Independent System Operator—New England (ISO-NE) Financial Assurance Policy (Policy), Unitil's affiliates Unitil Energy, Fitchburg and Unitil Power are required to provide assurance of their ability to satisfy their obligations to ISO-NE. Under this Policy, Unitil's affiliates provide cash deposits covering approximately 2-1/2 months of outstanding obligations. On December 31, 2008 and 2007, the Unitil affiliates had deposited $3.7 million and $2.5 million, respectively to satisfy their ISO-NE obligations. In addition, Northern Utilities has cash margin deposits to satisfy requirements for its natural gas hedging program. On December 31, 2008, there was $7.0 million deposited for this purpose.

Goodwill and Intangible Assets—As a result of the acquisitions of Northern Utilities and Granite State, the Company recognized a bargain purchase adjustment as a reduction to Utility Plant, to be amortized over a ten year period, beginning with the date of the Acquisitions, as authorized by regulators. (See Note 3).

Off-Balance Sheet Arrangements—As of December 31, 2008, the Company does not have any significant arrangements that would be classified as Off-Balance Sheet Arrangements. In the ordinary course of business, the Company does contract for certain office equipment, vehicles and other equipment under operating leases (See Note 5).

Investments and Trading Activities—The Company invests in U.S. Treasuries and short-term investments which traditionally have very little fluctuation in fair value. The Company does not engage in investing or trading activities involving non-exchange traded contracts or other instruments where a periodic analysis of fair value would be required for accounting purposes.

Derivatives—The Company enters into wholesale electric and gas energy supply contracts to serve its customers. The Company's policy is to review each contract and determine whether they meet the criteria for classification as derivatives under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133" (SFAS No. 138), SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149), SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" and FASB Staff Position No. FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of SFAS No. 133 and FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", (FIN 45); and Clarification of the Effective Date of SFAS No. 161 (FSP FAS 133-1 and FIN 45-4). The Company has a regulatory approved hedging program, discussed below, which meets the criteria for classification as a derivative instrument. Additionally, the Company may enter into interest rate hedging transactions with respect to existing indebtedness and anticipated debt offerings. As of December 31, 2008, the Company has not entered into any interest rate hedging transactions. However, should the Company enter into any such transactions in the future, its policy will be to review each transaction and determine whether it meets the criteria for classification as derivatives under SFAS No. 133, SFAS No. 138 and / or SFAS No. 149.

The Company has a regulatory approved hedging program for Northern Utilities designed to fix a portion of its gas supply costs for the coming year of service. In order to fix these costs, the Company purchases New York Mercantile Exchange futures that correspond to the associated delivery month. Any gains or losses on the fair value of these derivatives are passed through to ratepayers directly through a regulatory commission approved recovery mechanism. As a result of the ratemaking process, the Company records gains and losses as regulatory liabilities or assets and recognizes such gains or losses in Purchased Gas when recovered in revenues. The Company's Consolidated Balance Sheets include derivative liabilities related to net unrealized losses on current futures contracts of $4.5 million in Other Current Liabilities and on noncurrent futures contracts of $1.2 million in Noncurrent Liabilities at December 31, 2008. These amounts are offset in Accrued Revenues on the Company's Consolidated Balance Sheets.

Utility Revenue Recognition—Regulated utility revenues are based on rates and charges approved by federal and state regulatory commissions. Revenues related to the sale of electric and gas service are recorded when service is rendered or energy is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on estimated customer usage by class and applicable customer rates.

Revenue Recognition—Non-regulated Operations—Usource, Unitil's competitive energy brokering subsidiary, records energy brokering revenues based upon the estimated amount of electricity and gas delivered to customers through the end of the accounting period.

Allowance for Doubtful Accounts—The Company recognizes a provision for doubtful accounts each month based upon the Company's experience in collecting electric and gas utility service accounts receivable in prior years. At the end of each month, an analysis of the delinquent receivables is performed which takes into account an assumption about the cash recovery of delinquent receivables. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company's distribution utilities are authorized by regulators to recover the costs of their energy commodity portion of bad debts through rate mechanisms. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis, including expected fuel assistance payments from governmental authorities and the level of customers enrolling in payment plans with the Company. It has been the Company's experience that the assumptions it has used in evaluating the adequacy of the Allowance for Doubtful Accounts have proven to be reasonably accurate.

Retirement Benefit Obligations—The Company sponsors the Unitil Corporation Retirement Plan (Pension Plan), which is a defined benefit pension plan covering substantially all of its employees. The Company also sponsors an unfunded retirement plan, the Unitil Corporation Supplemental Executive Retirement Plan (SERP), covering certain executives of the Company and an employee 401(k) savings plan. Additionally, the Company sponsors the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan), primarily to provide health care and life insurance benefits to retired employees.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", (SFAS No. 158), an amendment of SFAS No. 87, "Employers' Accounting for Pensions", SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions" and SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 158 requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas rates. See Note 10.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and requires disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's policy is to record those estimates in accordance with the American Institute of Certified Public Accountants Statement of Position 94-6, "Disclosure of Certain Significant Risks and Uncertainties."

Commitments and Contingencies—The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with FASB Statement No. 5, "Accounting for Contingencies" (SFAS No. 5). SFAS No. 5 applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2008, the Company is not aware of any material commitments or contingencies other than those disclosed in the Commitments and Contingencies footnote to the Company's consolidated financial statements below. (See Note 7).

Utility Plant—The cost of additions to Utility Plant and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The average interest rates applied to AFUDC were 4.58%, 5.73% and 4.92% in 2008, 2007 and 2006, respectively. The costs of current repairs and minor replacements are charged to appropriate operating expense accounts. The original cost of utility plant retired or otherwise disposed of and the cost of removal, less salvage, are charged to the accumulated provision for depreciation. The Company includes in its mass asset depreciation rates, which are periodically reviewed as part of its ratemaking proceedings, depreciation amounts to provide for future negative salvage value. At December 31, 2008 and December 31, 2007, the Company estimates that the negative salvage value of future retirements recorded on the balance sheet in Accumulated Depreciation, including $17.4 million in 2008 related to Northern Utilities, is $33.9 million and $16.2 million, respectively.

Depreciation and Amortization—Depreciation expense is calculated on a group straight-line basis based on the useful lives of assets, and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the

Company’s fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company's consolidated financial statements. Depreciation provisions for Unitil’s utility operating subsidiaries are determined on a group straight-line basis. Provisions for depreciation were equivalent to the following composite rates, based on the average depreciable property balances at the beginning and end of each year: 2008 – 3.94%, 2007 – 4.29% and 2006 – 4.40%.

Environmental Matters—The Company’s past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. The Company has or will recover substantially all of the costs of the environmental remediation work performed to date from customers or from its insurance carriers. The Company believes it is in compliance with all applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2008, there are no material losses that would require additional liability reserves to be recorded other than those disclosed in Note 7, Commitments and Contingencies. Changes in future environmental compliance regulations or in future cost estimates of environmental remediation costs could have a material effect on the Company’s financial position if those amounts are not recoverable in regulatory rate mechanisms.

Stock-based Employee Compensation—Unitil accounts for stock-based employee compensation using the fair value-based method as prescribed under FASB No. 123(R), “Share-Based Payment” (See Note 4).

Sales and Consumption Taxes—The Company bills its customers sales tax in Massachusetts and Maine and consumption tax in New Hampshire. These taxes are remitted to the appropriate departments of revenue in each state and are excluded from revenues on the Company’s Consolidated Statements of Earnings.

Income Taxes—Provisions for income taxes are calculated in each of the jurisdictions in which the Company operates for each period for which a statement of earnings is presented. This process involves estimating the Company’s current tax liabilities as well as assessing temporary and permanent differences resulting from the timing of the deductions of expenses and recognition of taxable income for tax and book accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Company’s consolidated balance sheets. The Company accounts for income tax assets, liabilities and expenses in accordance with FASB Statement No. 109, “Accounting for Income Taxes” (SFAS No. 109) and under FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48), an interpretation of SFAS No. 109.

Dividends—The Company is currently paying a dividend at an annual rate of $1.38 per common share. The Company’s dividend policy is reviewed periodically by the Board of Directors. The amount and timing of all dividend payments is subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial conditions and other factors.

Other Recently Issued Pronouncements—On December 30, 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 132(R)-1, “Employers’ Disclosures about Postretirement Benefit Plan Assets”, (FSP FAS 132(R)-1) to provide guidance on an employers’ disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by FSP FAS 132(R)-1 are to be provided for fiscal years ending after December 15, 2009. The Company does not expect that the adoption of the deferred sections of FSP FAS 132(R)-1 will have an impact on the Company’s Consolidated Financial Statements.

On September 12, 2008, the FASB issued FASB Staff Position No. FAS 133-1 and FIN 45-4, “Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities”, (SFAS No. 133) and FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others”, (FIN 45); and Clarification of the Effective Date of FASB Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (SFAS No. 161)”, (FSP FAS 133-1 and FIN 45-4). FSP FAS 133-1 and FIN 45-4 is effective for reporting periods ending after November 15, 2008, with early adoption permitted. FSP

FAS 133-1 and FIN 45-4 (i) amends SFAS No. 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument, (ii) amends FIN 45 to require an additional disclosure about the current status of the payment/performance risk of a guarantee, and (iii) clarifies the FASB's intent about the effective date of SFAS No. 161. The Company adopted FSP FAS 133-1 and FIN 45-4 and there was no impact on its financial statements.

In May 2008, the FASB issued FASB Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles", (SFAS No. 162), effective 60 days following the SEC's September 2008 approval of the Public Company Accounting Oversight Board's amendments to AU Section 411. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. The Company adopted SFAS No. 162 and there was no impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption allowed. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of an entity's use of derivative instruments and the effect of those derivative instruments on an entity's financial statements. The Company adopted SFAS No. 161 and there was no impact on its financial statements.

In December 2007, the FASB issued FASB Statement No. 141 (Revised 2007), "Business Combinations" (SFAS No. 141R), effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS No. 141R establishes principles and requirements on how an acquirer recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, noncontrolling interests in the acquiree, goodwill or gain from a bargain purchase and accounting for transaction costs. Additionally, SFAS No. 141R determines what information must be disclosed to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company adopted SFAS No. 141R upon its effective date on January 1, 2009 and it will only impact future acquisitions, if any.

Reclassifications—Based on the Company's analysis certain amounts previously reported have been reclassified to conform to improve the financial statements' presentation and to conform to current year presentation, including the reclassification of $24.0 million of Noncurrent Assets to Current Assets and $20.0 million of Noncurrent Liabilities to Current Liabilities principally related to current collections and obligations of Regulatory Assets and Regulatory Liabilities for 2007.

Note 2: Subsequent Event—Issuance of Common Shares

As discussed in Note 3 below, on December 15, 2008, the Company issued and sold 2,000,000 shares of its common stock at a price of $20.00 per share in a registered public offering. As part of this offering, the Company granted the underwriters a 30-day over-allotment option to purchase additional shares. The underwriters exercised the over-allotment option and purchased an additional 270,000 shares of the Company's common stock in January 2009. The Company's net increases to Common Equity and Cash from the over-allotment sales were approximately $5.1 million (after payment of the underwriting discount and offering expenses) and were used to repay a portion of the short-term indebtedness used for the Company's acquisitions of Northern Utilities and Granite State. The Company recorded the issuance of the 270,000 shares, the sale proceeds and the increase in Common Equity in January 2009.

Note 3: Acquisitions

On December 1, 2008, the Company purchased (i) all of the outstanding capital stock of Northern Utilities, a natural gas distribution utility serving customers in Maine and New Hampshire, from Bay State and (ii) all of the outstanding capital stock of Granite State, an interstate gas transmission pipeline company primarily serving the needs of Northern Utilities, from NiSource pursuant to the Stock Purchase Agreement (SPA) dated as of February 15, 2008 by and among NiSource, Bay State, and Unitil. The aggregate purchase price for the Acquisitions was $160 million in cash, plus an additional working capital adjustment of $49.2 million, including approximately $30.0 million of natural gas storage inventory. As part of the acquisition, the Company acquired cash of $6.9 million and incurred transition and transaction costs of $7.6 million.

The Company initially financed the Acquisitions and the related costs and expenses using borrowings under a bank financing facility with the Royal Bank of Canada. During December 2008, the Company repaid a portion of the bank financing facility using the net proceeds from: (i) the offering of the Company's common stock issued on December 15, 2008; (ii) the sale and issuance by Northern Utilities to institutional investors in a private placement of $80 million aggregate principal amount of long-term unsecured Notes on December 3, 2008; (iii) the sale and issuance by Granite State to institutional investors in a private placement of $10.0 million aggregate principal amount of long-term unsecured notes on December 15, 2008; and (iv) the receipt of proceeds from the financing by Northern Utilities of its gas storage inventory contemporaneously with the closing of the Acquisitions. At December 31, 2008, the amount remaining under the bank financing facility was $39.1 million. The Company expects to repay the outstanding balance under the bank financing facility prior to its maturity date of November 1, 2009 by issuing additional equity or debt.

The Company accounted for the Acquisitions under the purchase method of accounting for business combinations, in accordance with FASB Statement No. 141, "Business Combinations" (SFAS No. 141) and SFAS No. 71. In that process, the Company recognized and measured the identifiable assets acquired and the liabilities assumed. In compliance with SFAS No. 71 regulatory accounting, the Company carried forward the historical book amounts of Northern Utilities' and Granite State's utility plant and regulatory assets and liabilities. The remaining identifiable assets and liabilities have been recorded at fair value at the date of acquisition. Also, the Company measured and recognized an acquisition adjustment related to a bargain purchase relative to these values acquired against the purchase price. The results of Northern Utilities and Granite State have been included in the accompanying consolidated financial statements from the date of acquisition.

The following table represents the allocation of the total purchase price of Northern Utilities and Granite State to the acquired assets and liabilities of Northern Utilities and Granite State. The allocation represents the values assigned to each of the assets acquired and liabilities assumed. The purchase price allocation is preliminary and is subject to change due to several factors, including, but not limited to: (1) changes in the fair values of Northern Utilities' and Granite State's current assets and liabilities as of the date of the acquisition; (2) the actual transition and transaction costs incurred; and (3) changes in the Company's valuation estimates that may be made between now and the time the purchase price allocation is finalized.

Purchase Price Allocation
($ Millions)

	December 1, 2008
Equity Purchase Price	$ 160.0
Plus: Working Capital Adjustment	49.2
Aggregate Purchase Price	209.2
Transaction and Transition Costs	7.6
Total Cash Purchase Price	216.8
Allocation To:	
Book Value of Net Utility Plant	(196.0)
Cash Acquired	(6.9)
Accounts Receivable and Other Current Assets	(22.2)
Accrued Revenue	(9.4)
Gas Inventory	(32.3)
Regulatory Assets	(27.4)
Accounts Payable and Other Current Liabilities	17.8
Regulatory Liabilities	31.3
Plant Acquisition Adjustment	**$ (28.3)**

The Company will amortize, over a 10-year period, the transition and transaction costs co-terminus with the Plant Acquisition Adjustment.

Note 4: Equity

The Company has both common and preferred stock outstanding. Details regarding these forms of capitalization follow:

Common Stock

As of August 21, 2008 the Company's common stock began trading on the New York Stock Exchange and ceased trading on the American Stock Exchange. The Company's common stock will continue to trade under its current symbol, "UTL".

On September 10, 2008, the Company's shareholders, at a Special Meeting of Shareholders, approved an increase in the authorized shares of the Company's common stock. Shareholders approved an amendment to the Company's Articles of Incorporation to increase the authorized number of shares of the Company's common stock, from 8,000,000 shares to 16,000,000 shares in the aggregate. The Company had 7,791,617, and 5,740,023 of common shares outstanding at December 31, 2008 and December 31, 2007, respectively.

Unitil Corporation Common Stock Offering—On December 15, 2008, the Company issued and sold 2,000,000 shares of its common stock at a price of $20.00 per share in a registered public offering. The Company repaid $36.8 million outstanding under the bank financing facility for the Company's acquisitions of Northern Utilities and Granite State with the net proceeds from the sale and issuance of its common stock.

As part of this offering, the Company granted the underwriters a 30-day over-allotment option to purchase additional shares. The underwriters exercised the over-allotment option and purchased an additional 270,000 shares of the Company's common stock in January 2009. The Company's net increase to Common Equity and Cash proceeds from the over-allotment sales were approximately $5.1 million (after payment of the underwriting discount, but excluding estimated offering expenses) and were used to repay a portion of the bank financing for the Company's acquisitions of Northern Utilities and Granite State and to repay other short-term indebtedness. The Company recorded the issuance of the 270,000 shares, the sale proceeds and the increase in Common Equity in January 2009.

Dividend Reinvestment and Stock Purchase Plan—During 2008, the Company sold 32,754 shares of its common stock, at an average price of $25.87 per share, in connection with its Dividend Reinvestment and Stock Purchase Plan (DRP) and its 401(k) plans. Net proceeds of $0.8 million were used to reduce short-term borrowings. The DRP provides participants in the plan a method for investing cash dividends on the Company's common stock and cash payments in additional shares of the Company's common stock. During 2007 and 2006, the Company raised $1.0 million and $1.0 million, respectively, of additional common equity through the issuance of 38,309 and 40,365 shares, respectively, of its common stock in connection with its DRP and 401(k) plans.

Shares Repurchased, Cancelled and Retired—During 2008, 2007 and 2006, Unitil did not repurchase, cancel or retire any of its common stock.

Stock-Based Compensation Plans—Unitil maintains a Restricted Stock plan and two stock option plans, which provided for the granting of options to key employees. The Company has adopted FASB Statement No. 123(R), "Accounting for Stock Based Compensation," and recognizes compensation costs at fair value at the date of grant. Details of the plans are as follows:

Restricted Stock Plan—On April 17, 2003, the Company's shareholders ratified and approved a Restricted Stock Plan (the Plan) which had been approved by the Company's Board of Directors at its January 16, 2003 meeting. Participants in the Plan are selected by the Compensation Committee of the Board of Directors from the eligible Participants to receive an annual award of restricted shares of Company common stock. The Compensation Committee has the power to determine the sizes of awards; determine the terms and conditions of awards in a manner consistent with the Plan; construe and interpret the Plan and any agreement or instrument entered into under the Plan as they apply to participants; establish, amend, or waive rules and regulations for the Plan's administration as they apply to participants; and, subject to the provisions of the Plan, amend the terms and conditions of any outstanding award to the extent such terms and conditions are within the discretion of the Compensation Committee as provided for in the Plan. Awards fully vest over a period of four years at a rate of 25% each year.

During the vesting period, dividends on restricted shares underlying the award may be credited to the participant's account. Awards may be grossed up to offset the participant's tax obligations in connection with the award. Prior to the end of the vesting period, the restricted shares are subject to forfeiture if the participant ceases to be employed by the Company other than due to the participant's death. The maximum number of shares of Restricted Stock available for awards to participants under the Plan is 177,500. The maximum aggregate number of shares of Restricted Stock that may be awarded in any one calendar year to any one participant is 20,000. In the event of any change in capitalization of the Company, the Compensation Committee is authorized to make proportionate adjustments to prevent dilution or enlargement of rights, including, without limitation, an adjustment in the maximum number and kinds of shares available for awards and in the annual award limit.

Restricted shares issued for 2006 – 2008 in conjunction with the Plan are presented in the following table:

Issuance Date	Shares	Aggregate Market Value (millions)
2/16/06	14,375	$0.4
2/9/07	9,020	$0.2
2/6/08	15,540	$0.4

The compensation expense associated with the issuance of shares under the Plan is being accrued over the vesting period and was $0.5 million, $0.4 million and $0.4 million in 2008, 2007 and 2006, respectively. At December 31, 2008, there was approximately $0.8 million of total unrecognized compensation cost related to non-vested shares under the Plan which is expected to be recognized over a weighted average of approximately 2.4 years as the shares vest. There were 21,024 and 18,511 non-vested shares under the Plan as of December 31, 2008 and 2007, respectively. The weighted average grant date fair value of these shares was $27.38 and $25.95, respectively. There were no cancellations or forfeitures under the Plan during 2008.

Unitil Corporation Key Employee Stock Option Plan—In the third quarter of 2007, the Company issued and sold 42,437 shares of its common stock, at a final average price of $10.70 per share, in connection with the exercise of stock options under the Unitil Corporation Key Employee Stock Option Plan (KESOP) which expired in 2007. The aggregate intrinsic value of the options exercised was $0.8 million. As of December 31, 2007, there are no options remaining under the KESOP. Net proceeds of $0.5 million were used by the Company to reduce short-term borrowings.

The total compensation expenses recorded by the Company with respect to this plan were $57,000 and $54,000 for the years ended December 31, 2007 and 2006, respectively. There was no compensation expense recorded for the year ended December 31, 2008 with respect to this plan.

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

	2007	2006
Beginning Options Outstanding and Exercisable	**25,000**	25,000
Dividend Equivalents Earned—Prior Years	**15,388**	13,202
Dividend Equivalents Earned—Current Year	**2,049**	2,186
Options Exercised	**(42,437)**	—
Ending Options Outstanding and Exercisable	**—**	40,388
Weighted Average Exercise Price per Share	**$10.70**	$11.25
Range of Option Exercise Price per Share	**$12.11-$18.28**	$12.11-$18.28
Weighted Average Remaining Contractual Life	**n/a**	0.9 years

Unitil Corporation 1998 Stock Option Plan—The "Unitil Corporation 1998 Stock Option Plan" became effective on December 11, 1998. The number of shares granted under this plan, as well as the terms and conditions of each grant, are determined by the Compensation Committee of the Board of Directors, subject to plan limitations. All options granted under this plan vest over a three-year period from the date of the grant, with 25% vesting on the first anniversary of the grant, 25% vesting on the second anniversary, and 50% vesting on the third anniversary. Under the terms of this plan, key employees may be granted options to purchase the Company's common stock at no less than 100% of the market price on the date the option is granted. All options must be exercised no later than 10 years after the date on which they were granted. This plan was terminated on January 16, 2003.

In 2008, the Company issued and sold 3,300 shares of its common stock, at a final average price of $24.51 per share, in connection with the exercise of stock options under the Unitil Corporation 1998 Stock Option Plan. The aggregate intrinsic value of the options exercised was less than $0.1 million. Net proceeds of $0.1 million were used by the Company to reduce short-term borrowings. There was no compensation expense associated with this plan in 2008, 2007 and 2006. The plan will remain in effect solely for the purposes of the continued administration of all options currently outstanding under the plan. No further grants of options will be made under this plan. As of December 31, 2008, there was no aggregate intrinsic value of the options exercisable. As of December 31, 2007, the intrinsic value of the options exercisable was $0.1 million.

	2008		2007		2006	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Beginning Options Outstanding	**107,000**	**$27.13**	107,000	$27.13	107,000	$27.13
Options Granted	**—**	**—**	—	—	—	—
Options Exercised	**(3,300)**	**$24.51**	—	—	—	—
Options Forfeited	**(6,500)**	**$27.99**	—	—	—	—
Ending Options Outstanding	**97,200**	**$27.16**	107,000	$27.13	107,000	$27.13
Options Vested and Exercisable- end of year	**97,200**	**$27.16**	107,000	$27.13	107,000	$27.13

The following summarizes certain data for the options outstanding at December 31, 2008:

Range of Exercise Prices	Options Vested, Exercisable and Outstanding	Weighted Average Exercise Price	Remaining Contractual Life
$20.00-$24.99	30,700	$23.38	0.2 years
$25.00-$29.99	34,500	$25.88	2.1 years
$30.00-$34.99	32,000	$32.17	1.1 years
	97,200		

Preferred Stock

Two of Unitil's distribution companies, Unitil Energy and Fitchburg, have $2.0 million of preferred stock outstanding. At December 31, 2008, Unitil Energy has $0.2 million of 6.00% Series Non-Redeemable, Non-Cumulative Preferred Stock series outstanding and Fitchburg has two series of Redeemable, Cumulative Preferred Stock outstanding, $0.8 million of 5.125% Series and $1.0 million of 8.00% Series.

Fitchburg is required to offer to redeem annually a given number of shares of each series of Redeemable, Cumulative Preferred Stock and to purchase such shares that shall have been tendered by holders of the respective stock. In addition, Fitchburg may opt to redeem the Redeemable, Cumulative Preferred Stock at a given redemption price, plus accrued dividends.

The aggregate purchases of Redeemable, Cumulative Preferred Stock during 2008, 2007 and 2006 related to the annual redemption offer were $21,200, $21,700 and $22,000, respectively. The aggregate amount of sinking fund requirements of the Redeemable, Cumulative Preferred Stock for each of the five years following 2008 is $117,000 per year.

Earnings Per Share

The following table reconciles basic and diluted earnings per share.

(Millions except shares and per share data)	2008	2007	2006
Earnings Available to Common Shareholders	**$ 9.6**	$ 8.6	$ 7.9
Weighted Average Common Shares Outstanding—Basic (000's)	**5,830**	5,659	5,597
Plus: Diluted Effect of Incremental Shares (000's)	**—**	13	15
Weighted Average Common Shares Outstanding—Diluted (000's)	**5,830**	5,672	5,612
Earnings per Share—Basic and Diluted	**$ 1.65**	$ 1.52	$ 1.41

Weighted average options to purchase 97,200, 35,000 and 72,500 shares of common stock were outstanding during 2008, 2007 and 2006, respectively, but were not included in the computation of Weighted Average Common Shares Outstanding for purposes of computing diluted earnings per share, because the effect would have been antidilutive. Additionally, 15,985, 2,030 and 24,256 weighted average non-vested restricted shares for 2008, 2007 and 2006, respectively, were not included in the above computation because the effect would have been antidilutive.

Note 5: Long-Term Debt, Credit Arrangements, Leases and Guarantees

The Company funds a portion of its operations through the issuance of long-term debt and through short-term borrowing arrangements. The Company's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their machinery, vehicles and office equipment. Details regarding long-term debt, short-term debt and leases follow:

Long-Term Debt and Interest Expense

Long-Term Debt Structure and Covenants—The agreements under which the long-term debt of Unitil and its utility subsidiaries, Unitil Energy, Fitchburg, Northern Utilities, and Granite State, were issued contain various covenants and restrictions. These agreements do not contain any covenants or restrictions pertaining to the maintenance of financial ratios or the issuance of short-term debt. These agreements do contain covenants relating to, among other things, the issuance of additional long-term debt, cross-default provisions and business combinations, as described below.

The long-term debt of Unitil is issued under Unsecured Promissory Notes with negative pledge provisions. The long-term debt's negative pledge provisions contain restrictions which, among other things, limit the incursion of additional long-term debt. Accordingly, in order for Unitil to issue new long-term debt, the covenants of the existing long-term agreement(s) must be satisfied, including that Unitil have total funded indebtedness less than 70% of total capitalization, and earnings available for interest equal to at least two times the interest charges for funded indebtedness. Each future senior long-term debt issuance of Unitil will rank pari passu with all other senior unsecured long-term debt issuances. The Unitil agreement requires that if Unitil defaults on any other future long-term debt agreement(s), it would constitute a default under its present long-term debt agreement. Furthermore, the default provisions are triggered by the defaults of Unitil Energy and Fitchburg or certain other actions against subsidiary companies in the Unitil System.

Substantially all of the property of Unitil Energy is subject to liens of indenture under which First Mortgage Bonds (FMB) have been issued. In order to issue new FMB, the customary covenants of the existing Unitil Energy Indenture Agreement must be met, including that Unitil Energy have sufficient available net bondable plant to issue the securities and projected earnings available for interest charges equal to at least two times the annual interest requirement. The Unitil Energy agreements further require that if Unitil Energy defaults on any Unitil Energy FMB, it would constitute a default for all Unitil Energy FMB. The Unitil Energy default provisions are not triggered by the actions or defaults of Unitil or its other subsidiaries.

All of the long-term debt of Fitchburg, Northern Utilities and Granite State are issued under Unsecured Promissory Notes with negative pledge provisions. Each issue of long-term debt ranks pari passu with its other senior unsecured long-term debt within that subsidiary. The long-term debt's negative pledge provisions contain restrictions which, among other things, limit the incursion of additional long-term debt. Accordingly, in order for Fitchburg, Northern Utilities or Granite State to issue new long-term debt, the covenants of the existing long-term agreements of that subsidiary must be satisfied, including that the subsidiary have total funded indebtedness less than 65% of total capitalization and earnings available for interest equal to at least two times the interest charges for funded indebtedness. As with the Unitil Energy agreements, the Fitchburg, Northern Utilities and Granite State agreements each require that if that subsidiary defaults on any of its own long-term debt agreements, it would constitute a default under all of that subsidiary's long-term debt agreements. Each of the Fitchburg, Northern Utilities and Granite State default provisions are not triggered by the actions or defaults of Unitil or any of its other subsidiaries.

The Unitil, Unitil Energy, Fitchburg, Northern Utilities and Granite State long-term debt instruments and agreements contain covenants restricting the ability of each company to incur liens and to enter into sale and leaseback transactions, and restricting the ability of each company to consolidate with, to merge with or into, or to sell or otherwise dispose of all or substantially all of its assets. The Granite State notes are guaranteed by Unitil for the payment of principal, interest and other amounts payable. This guarantee will terminate if Granite State is reorganized and merges with and into Northern Utilities.

At December 31, 2008, there were no restrictions on Unitil's Retained Earnings for the payment of common dividends. Unitil Energy, Fitchburg, Northern Utilities and Granite State pay dividends to their sole shareholder, Unitil Corporation, and these dividends are the primary source of cash for the payment of dividends to Unitil's common shareholders.

Debt Repayment and Sinking Funds—The total aggregate amount of sinking fund payments relating to bond issues and normal scheduled long-term debt repayments amounted to $363,755, $335,877, and $310,136 in 2008, 2007 and 2006, respectively.

The aggregate amount of bond sinking fund requirements and normal scheduled long-term debt repayments for each of the five years following 2008 is: 2009 – $393,946; 2010 – $426,643; 2011 – $462,055; 2012 – $500,405; and 2013 – $541,938, respectively.

Long-Term Debt Issuances—In connection with the Acquisitions, Northern Utilities issued $80.0 million aggregate principal amount of senior unsecured notes on December 3, 2008, and Granite State issued $10.0 million aggregate principal amount of senior unsecured notes on December 15, 2008., The net proceeds from the Northern Utilities and Granite State notes were used to recapitalize Northern Utilities and Granite State and to ultimately repay a portion of the Company's short-term bank financing facility used to fund the purchase price of the Acquisitions. The notes consist of:

(i) $30.0 million aggregate principal amount of 6.95% senior unsecured notes of Northern Utilities, which are due in 2018;

(ii) $50.0 million aggregate principal amount of 7.72% senior unsecured notes of Northern Utilities, which are due in 2038; and

(iii) $10.0 million aggregate principal amount of 7.15% senior unsecured notes of Granite State, which are due in 2018, along with a guarantee from Unitil for the payment of principal, interest and other amounts payable on the Granite State notes. This guarantee will terminate if Granite State is reorganized and merges with and into Northern Utilities.

On May 2, 2007, Unitil completed the sale of $20 million of Senior Long-Term Notes, through a private placement to institutional investors. The Notes have a term of 15 years maturity and a coupon rate of 6.33%. The Company utilized the proceeds from the long-term Note financing to refinance existing short-term debt and for other corporate purposes of the Company's principal utility subsidiaries.

On September 26, 2006 Unitil Energy issued and sold $15 million of Series O 6.32% First Mortgage Bonds, due September 15, 2036, to institutional investors in the form of a private placement. The proceeds from this long-term financing were used principally to permanently finance long-lived utility plant additions that had been previously financed on an interim basis with short-term bank borrowings.

Fair Value of Long-Term Debt—The fair value of the long-term debt of the Company and its subsidiaries is estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the long-term debt of the Company and its subsidiaries at December 31, 2008 is estimated to be in a range of up to approximately $229 million, before considering any costs, including prepayment costs, to market the Company's debt. Currently, the Company believes that there is no active market in the Company's debt securities, which have all been sold through private placements.

Details on long-term debt at December 31, 2008 and 2007 are shown below:

Long-Term Debt (millions)	December 31, 2008	December 31, 2007
Unitil Corporation Senior Notes:		
6.33% Notes, Due May 1, 2022	**$ 20.0**	$ 20.0
Unitil Energy First Mortgage Bonds:		
8.49% Series, Due October 14, 2024	**15.0**	15.0
6.96% Series, Due September 1, 2028	**20.0**	20.0
8.00% Series, Due May 1, 2031	**15.0**	15.0
6.32% Series, Due September 15, 2036	**15.0**	15.0
Fitchburg Long-Term Notes:		
6.75% Notes, Due November 30, 2023	**19.0**	19.0
7.37% Notes, Due January 15, 2029	**12.0**	12.0
7.98% Notes, Due June 1, 2031	**14.0**	14.0
6.79% Notes, Due October 15, 2025	**10.0**	10.0
5.90% Notes, Due December 15, 2030	**15.0**	15.0
Northern Utilities Senior Notes:		
6.95% Senior Notes, Series A, Due December 3, 2018	**30.0**	—
7.72% Senior Notes, Series B, Due December 3, 2038	**50.0**	—
Granite State Senior Notes:		
7.15% Senior Notes, Due December 15, 2018	**10.0**	—
Unitil Realty Corp. Senior Secured Notes:		
8.00% Notes, Due August 1, 2017	**4.7**	5.0
Total Long-Term Debt	**249.7**	160.0
Less: Current Portion	**0.4**	0.4
Total Long-Term Debt, Less Current Portion	**$249.3**	$159.6

Interest Expense, net—Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. In addition, certain reconciling rate mechanisms used by the Company's distribution operating utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated.

Unitil's utility subsidiaries operate a number of reconciling rate mechanisms to recover specifically identified costs on a pass through basis. These reconciling rate mechanisms track costs and revenue on a monthly basis. In any given month, this monthly tracking and reconciling process will produce either an under-collected or an over-collected balance of costs. In accordance with the distribution utilities' rate tariffs, interest is accrued on these balances and will produce either interest income or interest expense. Interest income is recorded on an under-collection of costs, which creates a regulatory asset to be recovered in future periods when rates are reset. Interest expense is recorded on an over-collection of costs, which creates a regulatory liability to be refunded in future periods when rates are reset.

A summary of interest expense and interest income is provided in the following table:

Interest Expense, net (millions)

	2008	**2007**	**2006**
Interest Expense			
Long-term Debt	**$12.0**	$11.1	$ 9.5
Short-term Debt	**1.0**	1.1	1.5
Regulatory Liabilities	**0.1**	0.8	0.3
Subtotal Interest Expense	**13.1**	13.0	11.3
Interest Income			
Regulatory Assets	**(2.5)**	(2.9)	(3.1)
AFUDC[1] and Other	**(0.1)**	(0.5)	(0.4)
Subtotal Interest Income	**(2.6)**	(3.4)	(3.5)
Total Interest Expense, net	**$10.5**	$ 9.6	$ 7.8

[1] AFUDC—Allowance for Funds Used During Construction

Credit Arrangements

On November 26, 2008, Unitil entered into a $60 million, 364-day revolving credit agreement with Bank of America, N.A., as administrative agent, and a syndicate of lenders. Borrowings under the revolving credit agreement bear interest at a floating annual rate equal to the daily LIBOR (the London Interbank Offered Rate) reported by the British Banking Association plus the applicable margin. The Company has the option of locking in the daily rate applicable to outstanding loans for one-, two-, three- or six-month interest periods. The applicable margin was initially equal to 1.75%, increased to 3.50% on January 2, 2009, and may be increased over time if the Company does not meet specified conditions with respect to its equity capital. The revolving credit agreement contains customary terms and conditions for credit facilities of this type, including certain financial covenants, including, without limitation, covenants restricting the Company's ability to incur liens, merge or consolidate with another entity or change its line of business. The revolving credit agreement also contains a covenant restricting the Company's ability to permit long-term debt to exceed 65% of capitalization at the end of each fiscal quarter. The Company had short-term debt outstanding through its revolving credit agreement of approximately $35.0 million and $18.8 million at December 31, 2008 and December 31, 2007, respectively.

The Company financed the Acquisitions and the related costs and expenses in part using borrowings under a bank financing facility. As of December 31, 2008, there was $39.1 million outstanding on this bank financing facility. Amounts outstanding under the bank financing facility accrue interest at either the Eurodollar Rate or the base rate, in each case plus the applicable margin. The Eurodollar Rate is based on an applicable LIBOR as increased by statutory reserve requirements. The base rate is the higher of (i) the prime rate of interest announced publicly by Royal Bank of Canada from time to time and (ii) the Federal Funds Rate plus 0.50%. The applicable margin is a range of interest rates that varies from 2.50% to 5.00% depending on the remaining term of the borrowings. The bank financing facility contains customary terms and conditions, including, without limitation, covenants restricting the Company's ability to (i) pay dividends, (ii) incur indebtedness and liens, (iii) merge or consolidate with another entity or (iv) sell, lease or otherwise dispose of all or substantially all assets.

The weighted average interest rates on all short-term borrowings were 3.8%, 5.6% and 5.5% during 2008, 2007 and 2006, respectively.

On November 1, 2008, Northern Utilities entered into a gas storage management agreement (the Agreement) pursuant to which (i) Northern Utilities released certain pipeline and storage capacity to an asset manager from November 1, 2008 through April 30, 2009 and (ii) the asset manager financed inventories associated with the released storage capacity from Northern Utilities contemporaneously with the closing of the Acquisitions. The Agreement requires Northern Utilities to repurchase quantities of natural gas over the course of the 2008/2009 winter heating season at a specified price and any remaining balance of the gas inventory on April 30, 2009 at the same price initially paid by the asset manager. The Agreement provides for the Company to issue a guarantee of payment of $15 million for the term of the agreement. There is $24.0 million outstanding at December 31, 2008 related to this Agreement.

Leases

Unitil's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their vehicles, machinery and office equipment under both capital and operating lease arrangements.

Total rental expense under operating leases charged to operations for the years ended December 31, 2008, 2007 and 2006 amounted to $389,000, $433,000 and $410,000 respectively. Fitchburg leases its operations facility in Fitchburg, Massachusetts under an operating lease, with a primary term through January 31, 2013. The lease agreement allows for three additional five-year renewal periods at the option of Fitchburg.

The following is a schedule of future operating lease payment obligations and future minimum lease payments under capital leases as of December 31, 2008:

Year Ending December 31, (000's)	Operating Leases	Capital Leases
2009	$ 929	$ 385
2010	823	345
2011	676	257
2012	549	97
2013	234	41
2014-2018	478	—
Total Payments	$3,689	$1,125

Guarantees

The Company also provides limited guarantees on certain energy and natural gas storage management contracts entered into by the three distribution utilities. The Company's policy is to limit these guarantees to two years or less. As of December 31, 2008 there are $18.0 million of guarantees outstanding and these guarantees extend through October 31, 2009. Of this amount, $15 million is related to Unitil's guarantee of payment for the term of the Northern Utilities' gas storage management agreement. These guarantees are not required to be recorded under the provisions of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."

The Company also guarantees the payment of principal, interest and other amounts payable on the notes issued by Unitil Realty and Granite State. As of December 31, 2008, the principal amount outstanding for the 8% Unitil Realty notes was $4.7 million. On December 15, 2008, the Company entered into a guarantee for the payment of principal, interest and other amounts payable on the $10 million Granite State notes due 2018. As of December 31, 2008, the principal amount outstanding for the 7.15% Granite State notes was $10.0 million. This guarantee will terminate if Granite State reorganizes and merges with and into Northern Utilities.

Note 6: Energy Supply

Electric Supply:

The transition to retail choice required the divestiture of Unitil's power supply arrangements and the procurement of replacement supplies, which provided the flexibility for migration of customers to and from utility service. Fitchburg, Unitil Energy, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the ISO New England, Inc. (ISO-NE) markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve Unitil's customers.

As a result of restructuring of the electric utility industry in Massachusetts and New Hampshire, Unitil's customers in both New Hampshire and Massachusetts have the opportunity to purchase their electric supply from competitive suppliers. Retail choice has been successful for Unitil's largest customers. As of December 2008, 82 or 55% of Unitil's largest New Hampshire customers representing 18% of total New Hampshire electric sales and 27 or 84% of Unitil's largest Massachusetts customers representing 35% of total Massachusetts electric sales are purchasing their electric power supply in the competitive market. However, most residential and small commercial customers continue to purchase their electric supply through Unitil's local distribution utilities. The concentration of the competitive retail market on higher use customers has been a common experience throughout the New England electricity market.

Regulated Electric Power Supply

In order to provide regulated electric supply service to their customers, Unitil's distribution utilities enter into load-following wholesale electric power supply contracts with various wholesale suppliers.

Fitchburg has power supply contracts with various wholesale suppliers for the provision of Basic Service energy supply. MDPU policy dictates the pricing structure and duration of each of these contracts. Currently, all Basic Service power supply contracts for large general accounts are three months in duration and provide 100% of supply requirements. Basic Service power supply contracts for residential and small and medium general service customers are acquired every six months, are 12 months in duration and provide 50% of the supply requirements.

Unitil Energy currently has power supply contracts with various wholesale suppliers for the provision of Default Service to its customers. Unitil Energy procures Default Service supply for its large general service accounts through competitive solicitations for power contracts of three months in duration for 100% of supply requirements. Unitil Energy procures Default Service supply for its other customers through a series of two one-year contracts and two three-year contracts, each providing 25% of the total supply requirements of the group.

The NHPUC and MDPU regularly investigate alternatives to their procurement policy, which may lead to future changes in this procurement structure.

Regional Electric Transmission and Power Markets

Fitchburg, Unitil Energy and Unitil Power, as well as virtually all New England electric utilities, are participants in the ISO-NE markets. ISO-NE is the Regional Transmission Organization (RTO) in New England. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economic manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. The ISO-NE tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric marketplace.

Electric Power Supply Divestiture

Prior to May 1, 2003, Unitil Energy purchased all of its power supply from Unitil Power under the Unitil System Agreement, a FERC-regulated tariff, which provided for the recovery of all of Unitil Power's power supply-related costs on a cost pass-through basis. Effective May 1, 2003, Unitil Energy and Unitil Power amended the Unitil System Agreement, such that power sales from Unitil Power to Unitil Energy ceased, and Unitil Power sold substantially all of its entitlements under the remaining portfolio of power supply contracts. Under the amended Unitil System Agreement, Unitil Energy continues to pay contract release payments to Unitil Power for stranded costs associated with the portfolio sale and its other ongoing power supply-related costs. In connection with the implementation of retail choice, Unitil Power and Fitchburg divested substantially all of their long-term power supply contracts and interests in generation assets through the sale of the interest in those assets or the sale of the entitlements to the electricity provided by those generation assets and long-term power supply contracts.

Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. Unitil's distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

Natural Gas Supply:

With the purchase of Northern Utilities on December 1, 2008, Unitil now manages gas supply for customers served by Northern Utilities in Maine and New Hampshire as well as customers served by Fitchburg in Massachusetts.

Fitchburg's residential and commercial and industrial (C&I) customers have the opportunity to purchase their natural gas supply from third-party vendors, although most of Fitchburg's customers continue to purchase such supplies at regulated rates from Fitchburg. Northern Utilities' C&I natural gas customers have the opportunity to purchase their natural gas supply from third-party vendors, and third-party supply is prevalent among Northern Utilities' larger C&I customers. Most small C&I customers, as well as all residential customers, purchase their gas supply at regulated rates from Northern Utilities as the provider of last resort. The costs associated with the acquisition of such wholesale natural gas supplies for customers who do not contract with third-party suppliers are recovered on a pass-through basis through periodically-adjusted rates and are included in Purchased Gas in the Consolidated Statements of Earnings.

Regulated Natural Gas Supply

Fitchburg purchases natural gas under contracts of one year or less, as well as from producers and marketers on the spot market. Fitchburg arranges for gas delivery to its city gate station or underground storage through its own long-term contracts with Tennessee Gas Pipeline, or in the case of liquefied natural gas (LNG) or liquefied propane gas (LPG), to truck supplies to each storage facility within Fitchburg's service territory.

Fitchburg has available under firm contract 14,057 MMbtu per day of year-round and seasonal transportation and underground storage capacity to its distribution facilities. As a supplement to pipeline natural gas, Fitchburg owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

Northern purchases a majority of its natural gas from U.S. domestic and Canadian suppliers under contracts of one year or less, and on occasion from producers and marketers on the spot market. Northern arranges for gas delivery to its city gate station or underground storage through its own long-term contracts with various interstate pipeline and storage facilities, through peaking supply contracts delivered to its city gate station, or in the case of liquefied natural gas (LNG) or liquefied propane gas (LPG), to truck supplies to each storage facility within Northern Utilities' service territory.

Northern has available under firm contract 100,000 MMbtu per day of year-round and seasonal transportation capacity to its distribution facilities, and 3.4 Bcf of underground storage. As a supplement to pipeline natural gas, Northern owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

Note 7: Commitments and Contingencies

Subsequent Event

On December 15, 2008, the Company issued and sold 2,000,000 shares of its common stock at a price of $20.00 per share in a registered public offering. As part of this offering, the Company granted the underwriters a 30-day over-allotment option to purchase additional shares. The underwriters exercised the over-allotment option and purchased an additional 270,000 shares of the Company's common stock in January 2009. The Company's net increases to Common Equity and Cash from the over-allotment sales were approximately $5.1 million (after payment of the underwriting discount and offering expenses) and were used to repay a portion of the short-term indebtedness used for the Company's acquisitions of Northern Utilities and Granite State. The Company recorded the issuance of the 270,000 shares, the sale proceeds and the increase in Common Equity in January 2009.

Legal Proceedings

A putative class action complaint was filed against Fitchburg on January 7, 2009 in Worcester Superior Court in Worcester, Massachusetts, captioned Bellerman v. Fitchburg Gas and Electric Light Company. The complaint seeks an unspecified amount of damages including the cost of temporary housing and alternative fuel sources, emotional and physical pain and suffering and property damages allegedly incurred by customers in connection with the loss of electric service during the ice storm in Fitchburg's service territory in December, 2008. As of this date the complaint has not been served on Fitchburg. The Company believes this complaint is without merit, and will defend itself vigorously.

Regulatory Matters

Overview (Unitil Energy, Fitchburg, and Northern Utilities)—Unitil's distribution utilities deliver electricity and/or natural gas to all customers in the Company's service territory, at rates established under traditional cost of service regulation. Under this regulatory structure, Unitil Energy, Fitchburg, and Northern Utilities recover the cost of providing distribution service to their customers based on a representative test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in New Hampshire, Massachusetts and Maine, most Unitil customers have the opportunity to purchase their electric or natural gas supplies from third-party suppliers. For Northern Utilities, only business customers have the opportunity to purchase their natural gas supplies from third-party suppliers at this time. Most small and medium-sized customers, however, continue to purchase such supplies through Unitil Energy, Fitchburg and Northern Utilities as the providers of basic or default service energy supply. Unitil Energy, Fitchburg and Northern Utilities purchase electricity or natural gas for basic or default service from unaffiliated wholesale suppliers and recover the actual costs of these supplies, without profit or markup, through reconciling, pass-through rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, Unitil Power and Fitchburg divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next two to four years, is $81.9 million as of December 31, 2008 including $22.1 million in Accrued Revenue on the Company's Consolidated Balance Sheet. Unitil's distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

Unitil Energy—Unitil Energy provides electric distribution service to its customers pursuant to rates approved by the NHPUC. Its current electric distribution base rates were approved by the NHPUC in 2006 under a Settlement Agreement with the NHPUC. As the provider of last resort, Unitil Energy also provides its customers with electric power through Default Service at rates which reflect Unitil Energy's costs for wholesale supply with no profit or markup. Unitil Energy procures Default Service power for its larger commercial and industrial customers on a quarterly basis, and for its smaller commercial and residential customers through a portfolio of longer term contracts procured on a semi-annual basis. Unitil Energy recovers its costs for this service on a pass-through basis through reconciling rate mechanisms. As of December 31, 2008, approximately 80 percent of Unitil Energy's electric load was served by Default Service. The remaining portion was served by competitive third party suppliers. The vast majority of customers being served by competitive third party suppliers are large C&I customers. Most residential and small commercial customers continue to purchase their electric supply through the distribution utility.

Under its 2002 restructuring settlement, the NHPUC approved the divestiture of the long-term power supply portfolio by Unitil Power and tariffs for Unitil Energy for stranded cost recovery, including certain charges that remain subject to annual or periodic reconciliation or future review. Unitil Energy had recorded on its balance sheets $18.9 and $30.7 million as Energy Supply Contract Obligations, respectively, on the Company's Consolidated Balance Sheet as of December 31, 2008 and 2007, respectively, associated with these long-term purchase power stranded costs, which are included in Unitil's consolidated financial statements. These Energy Supply Contract Obligations are expected to be recovered principally over a period of approximately two years. Unitil Energy does not earn carrying charges on these regulatory assets as the timing of cash receipts and cash disbursements associated with these long-term obligations is matched through rates.

On March 14, 2008, Unitil Energy made its annual reconciliation and rate filing with the NHPUC under its restructuring plan, for rates effective May 1, 2008, including reconciliation of prior year costs and revenues, power supply and power supply-related stranded costs. The filing was approved on April 23, 2008. On July 9, 2008, Unitil Energy proposed an increase to its External Delivery Charge, effective September 1, 2008, reflecting higher transmission costs. The filing was approved on August 29, 2008.

On January 22, 2008, the NHPUC issued an order in its investigation into implementation of the federal Energy Policy Act of 2005 regarding the adoption of standards for time-based metering and interconnection. The NHPUC determined that it is appropriate to implement some form of time-based metering standards and ordered that the details, including cost-benefit analyses, form of rate design, time of implementation and applicable customer classes are to be determined in separate proceedings initiated by the NHPUC. The NHPUC also found that additional review of the energy standards for net metering, fuel diversity and fossil fuel generation efficiency as proposed in the Energy Policy Act of 2005 is not required due to action of the New Hampshire legislature and the NHPUC in adopting comparable standards.

On May 14, 2007, the NHPUC issued an order opening an investigation into the merits of instituting appropriate rate mechanisms, such as revenue decoupling, which would have the effect of removing obstacles to, and encouraging investment in, energy efficiency. On January 16, 2009, the NHPUC issued its decision in this matter, concluding that such rate mechanisms should only be implemented on a company-by-company basis in the context of an examination of company specific costs and revenues, service territory, customer mix and rate base investment.

Unitil Energy—Other: In July 2008, the State of New Hampshire enacted legislation that allows electric utilities to make investments in distributed energy resources, including energy efficiency and demand reduction technologies, as well as clean cogeneration and renewable generation.

Fitchburg—Electric Operations—Fitchburg provides electric distribution service to customers under unbundled distribution rates approved by the MDPU. Its current electric distribution base rates were approved by the MDPU in 2008. Fitchburg, as the provider of last resort, also provides its customers with electric power through Basic Service at rates which reflect Fitchburg's costs for wholesale supply with no profit or markup. Prices for Basic Service are set periodically based on market solicitations as approved by the MDPU. As of December 31, 2008, approximately 59 percent of Fitchburg's electric load was served by Basic Service. The remaining portion was served by competitive third party suppliers. The vast majority of customers being served by competitive third party suppliers are large commercial and industrial (C&I) customers.

As a result of the restructuring and the divestiture of Fitchburg's owned generation assets and buyout of Fitchburg's power supply obligations, Regulatory Assets on the Company's balance sheets include the following three categories: Energy Supply Contract Obligations associated with the divestiture of its long-term purchase power obligations; Recoverable Deferred Restructuring Charges resulting from the restructuring legislation's seven year rate cap; and Recoverable Generation-related Assets associated with the divestiture of generation plant owned by Fitchburg. Fitchburg earns carrying charges on the majority of the unrecovered balances of the Recoverable Deferred Restructuring Charges. The value of Fitchburg's Recoverable Deferred Restructuring Charges and Recoverable Generation-related Assets was approximately $29.1 million at December 31, 2008, and $32.1 million at December 31, 2007, including $4.1 million and $3.9 million, respectively, included in Accrued Revenue, and is expected to be recovered in Fitchburg's rates over the next four years. In addition, Fitchburg had recorded on its balance sheet $33.8 million at December 31, 2008, and $42.0 million at December 31, 2007, as Energy Supply Contract Obligations associated with the divestiture of its long-term purchase power contracts, which are included in Unitil's consolidated financial statements, and on which carrying charges are not earned as the timing of cash disbursements and cash receipts associated with these long-term obligations is matched through rates.

The Company received a final order from the MDPU on February 29, 2008 approving an electric rate increase of $2.1 million, effective March 1, 2008.

Pursuant to its approved electric restructuring plan, toward the end of each year Fitchburg submits its annual reconciliation of costs and revenues for Transition, Transmission, Standard Offer Service, and Default Service. Fitchburg's 2007 filing, submitted on December 3, 2007, was approved by the MDPU on August 19, 2008. On November 26, 2008, Fitchburg submitted its annual reconciliation filing for 2008. The rates were approved effective January 1, 2009, subject to further investigation. This matter remains pending.

Major Ice Storm—On December 11 and 12, 2008, a severe ice storm struck the New England region, causing extensive damage to electric facilities and loss of service to significant numbers of customers of several utilities. An estimated one million electric customers in the region were affected, including all of Unitil's 28,000 Massachusetts customers, and approximately half of its New Hampshire customers. Unitil was able to restore power to one-third of its Massachusetts customers within three days, and 80 percent of its customers by day seven, and the final Massachusetts customers, including those with individual service problems, were restored by day 13, December 24, 2008. On January 7, 2009, the MDPU opened an investigation into the Preparation and Response of the Massachusetts electric distribution companies to the December 12, 2008 Winter Storm. Each electric distribution company has been ordered to file a report detailing its response to the storm and outages, and its service restoration efforts with the MDPU by February 23, 2009. Public hearings have been held in each of the electric distribution utilities' service areas in Massachusetts. Based on its preliminary assessment, the Company has accrued and deferred approximately $10 million in costs for the repair and replacement of electric distribution systems damaged during the storm. The amount and timing of the cost recovery of these storm restoration expenditures will be determined in future regulatory proceedings. The Company does not believe these storm restoration expenditures and the timing of cost recovery will have a material adverse impact on the Company's financial condition or results of operations. This matter remains pending.

Fitchburg—Gas Operations—Fitchburg provides natural gas delivery service to its customers on a firm or interruptible basis under unbundled distribution rates approved by the MDPU. Its current distribution base rates were approved by the MDPU in 2007. Fitchburg's customers may purchase natural gas supplies from third-party vendors or purchase their natural gas from Fitchburg as the provider of last resort. Fitchburg collects its natural gas supply costs through a seasonal reconciling Cost of Gas Adjustment Clause and recovers other related costs through a reconciling Local Distribution Adjustment Clause.

Fitchburg—Other—On June 22, 2007, the MDPU opened an inquiry into revenue decoupling for gas and electric distribution utilities, generally defined as a ratemaking mechanism designed to eliminate or reduce the dependence of a utility's distribution revenues on sales. Revenue decoupling is intended to remove the disincentive a utility has to promote efforts to reduce energy consumption by its customers or to facilitate installation of distributed generation to displace electricity delivered by the utility. On July 16, 2008, the MDPU issued an order establishing a comprehensive plan for decoupling to be adopted by gas and electric distribution utilities on a going-forward basis, including company specific rate cases. Lost base revenue recovery associated with incremental energy efficiency savings will be allowed through 2012 consistent with the MDPU's expectation that, with limited exceptions, distribution companies will be operating under decoupling plans by year-end 2012. Each distribution company was required to notify the MDPU of when the company expects to file a rate case to implement decoupling. Fitchburg notified the MDPU that it will be prepared to file rate cases for each of its divisions by the third quarter of 2009, based upon a calendar 2008 test year, along with a comprehensive decoupling proposal and associated base rate adjustment mechanism. This matter remains pending before the MDPU.

On July 2, 2008, the Governor of Massachusetts signed into law "*The Green Communities Act*" (the GC Act), an energy policy legislation designed to substantially increase energy efficiency and the development of renewable energy resources in Massachusetts. The GC Act includes provisions that:

- Require electric and natural gas distribution companies to file three-year energy efficiency investment plans designed to implement all available cost-effective energy efficiency and demand reduction resources; the plans are to include fully reconciling funding mechanisms;

- Require utility distribution companies to undertake various Green programs, including the solicitation of bids for long-term renewable energy procurement contracts for which utilities would be allowed remuneration on certain contract commitments;
- Establishes expanded authority for the MDPU to investigate mergers involving holding companies of public utilities;
- Increase the Renewable Portfolio Standard by 1% annually, requiring that by the year 2020 utilities and other electricity suppliers obtain 15% of the power they sell from renewable resources;
- Authorize electric distribution companies to construct, own, and operate up to 50 megawatts of solar generating capacity; and
- Modify the service quality performance penalty provision.

The GC Act provides for utilities to recover in rates the incremental costs associated with its various mandated programs.

Northern Utilities Acquisition—Northern Utilities is a New Hampshire corporation and a public utility under both New Hampshire and Maine law. Northern Utilities provides natural gas distribution services to a total of 52,000 customers in 44 New Hampshire and southern Maine communities. On December 1, 2008 Unitil completed the purchase of Northern Utilities from Bay State Gas Company (a subsidiary of NiSource, Inc.) and Granite State from NiSource Inc. The purchase agreement between Bay State, NiSource and Unitil was announced on February 19, 2008. Joint petitions on behalf of Unitil and Northern Utilities requesting approval of the purchase of Northern Utilities by Unitil were filed with the NHPUC and the MPUC on March 31, 2008. State regulatory approvals of Unitil's purchase of Granite State were not required. In August 2008, unopposed settlement agreements resolving all outstanding issues and recommending approval of the acquisition were filed with the NHPUC and MPUC on behalf of Unitil, Northern Utilities and the active parties to the respective New Hampshire and Maine proceedings. The NHPUC approved the transaction on October 10, 2008. The MPUC issued an order approving the transaction with conditions on October 22, 2008, which it modified on November 5, 2008.

Although separately negotiated and filed with the MPUC and the NHPUC, the settlement agreements reflect several common topics (including regulatory authorizations, matters affecting rates, customer service provisions, service quality, gas safety and reliability, agreements regarding Granite State and reporting requirements) as follows:

The settlement agreements include the following authorizations and approvals:

- approval of Unitil's acquisition of Northern Utilities;
- approval of the amended Unitil Service Agreement adding Northern Utilities as a party;
- approval of the amended Unitil Cash Pooling Agreement adding Northern Utilities as a party; and
- approval of Northern Utilities' accounting deferral and 10-year amortization of transaction costs and transition costs resulting from the Company's acquisition of Northern Utilities and the Company's agreement not to seek recovery of these costs, or the transaction or transition costs of any other utility subsidiary, in rates.

The settlement agreements include the following commitments related to rates:

- agreement that synergy savings resulting from our acquisition of Northern Utilities will be retained by the Company until the next base rate change and then will flow to customers;
- agreement not to request a base rate change for Northern Utilities before November 1, 2010 unless (i) Northern Utilities' projected annual revenues are more than 8% below the level of total 2007 distribution revenues or (ii) the MPUC or NHPUC, as applicable, approves a plan to subject Granite State's rates to state regulation;
- agreement to allow Northern Utilities to recover prudently incurred integration costs for capitalized expenditures to build or upgrade systems or facilities required to independently operate Northern Utilities;

- agreement not to seek recovery in Northern Utilities' rates of any acquisition premium resulting from Unitil's acquisition of Northern Utilities and that any acquisition adjustment (positive or negative) shall be accounted for below the line for ratemaking purposes over a 10-year period;
- agreement to hold Northern Utilities' customers harmless for the elimination of historical accumulated deferred income tax (ADIT) liabilities resulting from its Internal Revenue Service Section 338(h)(10) election;
- agreement to use an imputed weighted cost of debt for ratemaking purposes until Northern Utilities' existing debt instruments would have matured; and
- agreement not to change Northern Utilities' existing depreciation rates for its Maine division until approved in the next general rate case.

The settlement agreements also contain the following commitments related to customers:

- agreement to implement a Low Income Program for Northern Utilities' Maine division, to provide additional customer payment options (including credit or debit cards and by internet and telephone) for Maine customers and to continue low income programs in Northern Utilities' New Hampshire division;
- agreement to review with the parties to the settlements communications that we develop to inform Northern Utilities' customers about our acquisition of Northern Utilities and to keep them apprised of the transition; and
- with respect to Maine, agreement to conduct a study of alternatives for the sale, lease, or use of the unused Portland manufactured gas site property that would best serve ratepayers' interests.

The settlement agreements contain the following commitments related to service quality, gas safety and reliability:

- agreement to improve and adhere to Northern Utilities' existing service quality plans in each jurisdiction; and
- agreement to provide notifications and safety reports based on several service quality and gas safety metrics, as well as implementing gas operations programs and practices.

The settlement agreements contain the following commitments related to Granite State:

- agreement to work collaboratively with the parties to the settlements to design and to conduct a comprehensive study of the issues and costs for modification of the physical, operational, regulatory, and corporate structure necessary for state regulation of Granite State and to provide a report within one year of the closing; and
- authorization for Northern Utilities to execute a firm service contract with Granite State for 100,000 Dekatherms (Dth) of capacity at Granite State's current recourse rate of $1.6666/ Dth for the period November 1, 2008 through October 31, 2010.

The settlement agreements contain the following commitments regarding affiliate books and records and transaction reporting:

- agreement to provide timely access to the books and records of any of Northern Utilities' affiliates at the discretion of the MPUC or the NHPUC, as applicable;
- agreement to file reports on our transition progress, business integration, costs, the Transition Services Agreement and costs while our acquisition of Northern Utilities was pending; and
- agreement to notify the MPUC and the NHPUC of any substantial changes in the financing terms.

In Massachusetts, the GC Act expanded the authority of the MDPU to review holding company mergers and sales of subsidiaries to determine how such transactions would affect the holding companies' Massachusetts' utility operating companies and their ratepayers. Unitil and Bay State filed a joint Petition with the MDPU on August 13 seeking an advisory determination that the recent statutory amendment was inapplicable to the proposed sale, or, alternatively, sought approval of the proposed sale. The MDPU declined to issue the advisory ruling, and determined that it had the requisite authority to review the transaction. After investigation and hearing, the MDPU issued its approval of the transaction on November 18, 2008.

Northern Utilities—Notices of Probable Violation—Beginning in October 2007, the MPUC initiated formal investigations into a number of Notices of Probable Violation (NOPVs) alleging that Northern Utilities had violated various provisions of the federal pipeline safety regulations, as adopted by the MPUC. Northern Utilities, the MPUC Staff and Unitil filed a comprehensive settlement (Settlement), which was approved by the MPUC on November 21, 2008, resolving these matters. Under the Settlement, Northern Utilities will incur total expenditures of approximately $3.8 million for certain safety related improvements for which no rate recovery will be allowed and obligations to be undertaken for Northern Utilities' distribution system to ensure compliance with the relevant state and federal gas safety laws. These compliance costs were accrued by Northern Utilities prior to the acquisition date and the remaining amount on the Company's balance sheet at December 31, 2008 was $3.1 million.

Northern Utilities—New Hampshire 2007/2008 Winter Cost of Gas—On October 31, 2007, the NHPUC issued Order No. 24,798 concerning the 2007/2008 winter cost of gas proceeding for Northern Utilities' New Hampshire division. In that order, the NHPUC noted that Northern Utilities had identified an unusually high level of lost and unaccounted for gas (UAFG), and ordered Northern Utilities to file a detailed report concerning its investigation of this matter. Through its investigation, Northern Utilities determined that the unaccounted for gas affected both its New Hampshire and Maine divisions, and that the cause appeared to be incorrect metering at the Maritimes & Northeast (M&NE) / Portland Natural Gas Transmission System's (PNGTS) Newington Gate Station caused by an erroneous meter module change. The metering equipment was operated and maintained by a third party, Spectra Energy, the parent company of M&NE. PNGTS and M&NE share joint ownership of the section of the pipeline connected to Granite State at the Newington Gate Station. The error caused Granite State to be billed for 758,702 Dth of natural gas, with Granite State then billing Northern Utilities for an equivalent amount, although the volumes of gas were not actually consumed. The meter error was corrected and Northern Utilities, Granite State, Spectra Energy and PNGTS reached an agreement whereby PNGTS will provide to Northern Utilities, through Granite State, gas volumes equal to the misread amounts to correct for the error, over a period of approximately 18 months. Both the NHPUC and the MPUC have approved this arrangement, as well as Northern Utilities' methodology for allocating the gas received to its Maine and New Hampshire divisions based upon the actual gas use over the period the meters were misread. As of December 31, 2008, Northern Utilities has recorded approximately $4.0 million reflecting the anticipated liability of the future refund amount based on current market prices with an offsetting receivable from Granite State.

Northern Utilities—Maine Capacity Costs—In its October 28, 2008 approval of Northern Utilities' Maine Division's Cost of Gas Factor for the 2008-2009 Winter Period, the MPUC approved recovery of an additional $0.5 million of annual demand costs that had been inadvertently omitted from Northern Utilities' reconciliation of the 2008-2009 Winter Period rates, although analogous costs had been included in its calculation of 2007-2008 Winter Period rates. The MPUC determined that recovery of these Local Production Capacity Costs was consistent with previous MPUC orders.

Northern Utilities also reported that, upon investigation, these annual demand costs, though approved, were incorrectly excluded from its reconciliation for five previous annual periods. The total impact for the five years is $2.4 million. On November 7, 2008, Northern Utilities filed a request with the MPUC seeking an accounting order allowing it to defer and amortize for recovery these unrecovered gas costs over a three year period. This matter remains pending.

Granite State—Granite State's interstate natural gas transmission pipeline system is regulated by the FERC under the Natural Gas Act, the Natural Gas Policy Act of 1978, and the Energy Policy Act of 2005. Granite State's system operates under a tariff approved by the FERC that establishes rates, cost recovery mechanisms, and terms and conditions of service for its customers. Additionally, interstate pipeline companies such as Granite State are subject to regulation by the U.S. Department of Transportation pursuant to the Natural Gas Pipeline Safety Act, which authorizes safety requirements in the design, construction, operations and maintenance of interstate natural gas transmission facilities. Granite State's last base rate case was resolved through stipulation and approved by the FERC on October 20, 1997. Granite State's Phase II rates, consistent with this stipulation became effective May 1, 1998.

FERC—Wholesale Power Markets—Fitchburg, Unitil Energy and Unitil Power, as well as virtually all New England electric utilities, are market participants in the regional bulk power system administered by ISO-NE, the RTO in New England. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economic manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is coordinated on a regional basis. The ISO-NE Tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated power system operation in a reliable manner and a supportive business environment for the development of a competitive electric marketplace. The formation of an RTO and other wholesale market changes are not expected to have a material impact on Unitil's utility operations because of the cost recovery mechanisms for wholesale energy and transmission costs approved by the NHPUC and MDPU.

Environmental Matters

The Company's past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. The Company believes it is in compliance with applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2008, there were no material losses reasonably likely to be incurred in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Fitchburg's Manufactured Gas Plant Site—Fitchburg continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. Fitchburg has proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection, which allows Fitchburg to work towards temporary closure of the site. A status of temporary closure requires Fitchburg to monitor the site until a feasible permanent remediation alternative can be developed and completed.

Fitchburg recovers the environmental response costs incurred at this former MGP site not recovered by insurance or other means in gas rates pursuant to terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, Fitchburg is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs. In addition, Fitchburg has filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. Any recovery that Fitchburg receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between Fitchburg and its gas customers.

Fitchburg is in the process of developing long-range plans for a feasible permanent remediation solution for the Sawyer Passway site, including alternatives for re-use of the site. Included on the Company's Consolidated Balance Sheet at December 31, 2008 and 2007 in Environmental Obligations is $11.1 million and $12.0 million, respectively, related to estimated future clean up costs for permanent remediation of the Sawyer Passway site. A corresponding Regulatory Asset was recorded to reflect that the recovery of this environmental remediation cost is probable through the regulatory process. The amounts recorded do not assume any amounts are recoverable from insurance companies or other third parties.

Northern Utilities Manufactured Gas Plant Sites—Northern Utilities has an extensive program to identify, investigate and remediate former MGP sites that were operated from the mid 1800s through the mid 1900s. In New Hampshire, MGP sites were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. This program has also documented the presence of MGP sites in Lewiston and Portland, Maine and a former MGP disposal site in Scarborough, Maine. Northern Utilities has worked with the environmental regulatory agencies in both New Hampshire and Maine to address environmental concerns with these sites.

Northern Utilities or others have substantially completed remediation of the Exeter, Rochester, Somersworth, Portsmouth, and Scarborough sites. The sites in Lewiston and Portland have been investigated and remedial activities are currently underway. Future operation, maintenance and remedial costs have been accrued, although there will be uncertainty regarding future costs until all remedial activities are completed.

The NHPUC and MPUC have approved the recovery of MGP environmental costs. For Northern Utilities' New Hampshire division, the NHPUC approved the recovery of MGP environmental costs over a seven-year amortization period. Northern Utilities believes material future costs will be recovered. For Northern Utilities' Maine division, the MPUC authorized the recovery of environmental remediation costs over a rolling five-year amortization schedule.

Include in the Company's Consolidated Balance Sheet at December 31, 2008 are current and non-current accrued liabilities totaling $1.6 million associated with Northern Utilities environmental remediation obligations for these former MGP sites. A corresponding Regulatory Asset was recorded to reflect that the recovery of these environmental remediation cost is probable through the regulatory process.

The Company's ultimate liability for future environmental remediation costs, including MGP site costs, may vary from estimates, which may be adjusted as new information or future developments become available. Based on the Company's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, the Company does not believe that these environmental costs will have a material adverse effect on the Company's consolidated financial position or results of operations.

The following table shows the balances and activity in the Company's liability for Environmental Obligations for 2008. The liability for Environmental Obligations was initially recognized on the Company's Consolidated Balance Sheet at December 31, 2006.

ENVIRONMENTAL OBLIGATIONS

	December 31,	
(Millions)	**2008**	**2007**
Balance at Beginning of Period	**$12.0**	$12.0
Liabilities Assumed	**1.6**	—
Provision	**—**	—
Payments / Reductions	**0.9**	—
Total Environmental Obligations—Balance at End of Period	**12.7**	12.0
Less: Current Portion (1)	**0.4**	—
Environmental Obligations—noncurrent—Balance at End of Period	**$12.3**	$12.0

(1) Reflects amounts included in Other Current Liabilities on the Company's Consolidated Balance Sheets.

Note 8: Bad Debts

Unitil's distribution utilities are authorized by regulators to recover the costs of their energy commodity portion of bad debts through rate mechanisms. In 2006, 2007 and 2008, the Company recorded provisions for the energy commodity portion of bad debts of $1.7 million, $1.5 million and $2.1 million, respectively. These provisions were recognized in Purchased Electricity and Purchased Gas expense as the associated electric and gas utility revenues were billed. Purchased Electricity and Purchased Gas costs are recovered from customers through periodic rate reconciling mechanisms. Prior to 2006, the commodity portion of bad debt expense was recognized in Purchased Electricity and Purchased Gas expense when the accounts were actually written off from accounts receivable.

The following table shows the balances and activity in the Company's Allowance for Doubtful Accounts for 2006 – 2008.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at Beginning of Period	(a) Other	Provision	Recoveries	Accounts Written Off	Balance at End of Period
Year Ended December 31, 2008						
Electric	**$1,005,548**	**$ —**	**$2,235,784**	**$239,752**	**$2,334,627**	**$1,146,457**
Gas	**225,301**	**1,361,889**	**1,430,914**	**164,821**	**1,401,236**	**1,781,689**
Other	**35,541**	**—**	**49,928**	**2,364**	**1,945**	**85,888**
	$1,266,390	**$1,361,889**	**$3,716,626**	**$406,937**	**$3,737,808**	**$3,014,034**
Year Ended December 31, 2007						
Electric	$1,264,102	$ —	$1,434,356	$147,497	$1,840,407	$1,005,548
Gas	438,159	—	971,958	113,924	1,298,740	225,301
Other	34,526	—	34,659	—	33,644	35,541
	$1,736,787	$ —	$2,440,973	$261,421	$3,172,791	$1,266,390
Year Ended December 31, 2006						
Electric	$ 342,791	$ —	$1,963,222	$136,399	$1,178,310	$1,264,102
Gas	110,031	—	1,325,650	134,802	1,132,324	438,159
Other	16,926	—	29,313	1,780	13,493	34,526
	$ 469,748	$ —	$3,318,185	$272,981	$2,324,127	$1,736,787

(a) Includes Allowance for Doubtful Accounts of Northern Utilities and Granite State, which were acquired on December 1, 2008.

Note 9: Income Taxes

Federal Income Taxes were provided for the following items for the years ended December 31, 2008, 2007 and 2006, respectively:

	2008	2007	2006
Current Federal Tax Provision (Benefit) (000's):			
Operating Income	**$(2,914)**	$4,522	$3,448
Total Current Federal Tax Provision (Benefit)	**(2,914)**	4,522	3,448
Deferred Federal Tax Provision (Benefit) (000's)			
Depreciation and Utility Plant	**5,159**	(444)	(656)
Regulatory Assets and Liabilities	**1,534**	(400)	790
Other, net	**121**	60	184
Total Deferred Federal Tax Provision (Benefit)	**6,814**	(784)	318
Total Federal Tax Provision	**$ 3,900**	$3,738	$3,766

The components of the Federal and State income tax provisions reflected as operating expenses in the accompanying consolidated statements of earnings for the years ended December 31, 2008, 2007 and 2006 are shown in the table below. In addition to the provisions for federal and state income taxes, the Company recorded provisions of $165,000, $203,000 and $211,000 in 2008, 2007 and 2006, respectively for state Business Enterprise taxes, which are included in Local Property and Other Taxes on the consolidated statements of earnings.

Federal and State Tax Provision (Benefit) (000's)	2008	2007	2006
Federal			
Current	**$(2,914)**	$4,522	$3,448
Deferred	**6,814**	(784)	318
Total Federal Tax Provision	**3,900**	3,738	3,766
State			
Current	**(42)**	896	337
Deferred	**592**	(138)	163
Total State Tax Provision	**550**	758	500
Total Provision for Federal and State Income Taxes	**$ 4,450**	$4,496	$4,266

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

	2008	2007	2006
Statutory Federal Income Tax Rate	**34%**	34%	34%
Income Tax Effects of:			
State Income Taxes, Net	**5**	5	5
Utility Plant Differences	**(6)**	(4)	(4)
Tax Credits and Other, Net	**(1)**	—	1
Effective Income Tax Rate	**32%**	35%	36%

Temporary differences, including the effect of deferred tax accounting on the assets and liabilities of Northern Utilities and Granite State acquired on December 1, 2008 (see Note 3 above), which gave rise to deferred tax assets and liabilities are shown below:

Deferred Income Taxes (000's)	2008	2007
Depreciation and Utility Plant	**$ 26,719**	$ 27,356
Regulatory Assets / Liabilities & Mechanisms	**30,071**	23,239
Retirement Benefit Obligations	**(23,029)**	(15,585)
Other	**(2,677)**	(1,627)
Total Deferred Income Tax Liabilities	**$ 31,084**	$ 33,383

The Company evaluated its tax positions at December 31, 2008 in accordance with FIN 48, and has concluded that no adjustment for recognition, derecognition, settlement and foreseeable future events to any unrecognized tax liabilities or assets as defined by FIN 48 is required. The Company does not have any unrecognized tax positions for which it is reasonably possible that the total amounts recognized will significantly change within the next 12 months. The Company remains subject to examination by Federal, Massachusetts and New Hampshire tax authorities for the tax periods ended December 31, 2005; December 31, 2006; and December 31, 2007. Income tax filings for the year ended December 31, 2008 are due March 15, 2009 but likely will be extended until September 15, 2009. The Company classifies penalty and interest expense related to income tax liabilities as an income tax expense. There are no material interest and penalties recognized in the statement of earnings or accrued on the balance sheet.

Note 10: Retirement Benefit Plans

The Company sponsors the following retirement benefit plans to provide certain pension and postretirement benefits for its retirees and current employees as follows:

- The Unitil Corporation Retirement Plan (Pension Plan)—The Pension Plan is a defined benefit pension plan covering substantially all of its employees. Under the Pension Plan, retirement benefits are based upon an employee's level of compensation and length of service.
- The Unitil Retiree Health and Welfare Benefits Plan (PBOP Plan)—The PBOP Plan provides health care and life insurance benefits to retirees. The Company has established Voluntary Employee Benefit Trusts (VEBT), into which it funds contributions to the PBOP Plan.
- The Unitil Corporation Supplemental Executive Retirement Plan (SERP)—The SERP is an unfunded retirement plan, with participation limited to executives selected by the Board of Directors.

Effective with the acquisitions of Northern Utilities and Granite State, the Company assumed the assets and obligations of the Northern Utilities and Granite State pension plans with respect to active union employees. All other active employees of Northern Utilities and Granite State effectively became members of the Company's Pension Plan as of the acquisitions closing date.

Certain employees of Northern Utilities qualified for participation in the Company's PBOP Plan effective with the acquisition closing date.

The following table includes the key assumptions used in determining the Company's benefit plan costs and obligations:

Used to Determine Plan costs for years ended December 31:	**2008**	**2007**	**2006**
Discount Rate	**6.00%**	5.50%	5.50%
Rate of Compensation Increase	**3.50%**	3.50%	3.50%
Expected Long-term rate of return on plan assets	**8.50%**	8.50%	8.50%
Health Care Cost Trend Rate Assumed for Next Year	**8.50%**	8.50%	9.00%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%	4.00%
Year that Ultimate Health Care Cost Trend Rate is reached	**2017**	2016	2016
Effect of 1% Increase in Health Care Cost Trend Rate (000's)	**$ 675**	$ 690	$ 683
Effect of 1% Decrease in Health Care Cost Trend Rate (000's)	**$ (531)**	$ (539)	$ (530)
Used to Determine Benefit Obligations at December 31:			
Discount Rate	**6.25%**	6.00%	5.50%
Rate of Compensation Increase	**3.50%**	3.50%	3.50%
Health Care Cost Trend Rate Assumed for Next Year	**8.00%**	8.50%	8.50%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%	4.00%
Year that Ultimate Health care Cost Trend Rate is reached	**2017**	2017	2016
Effect of 1% Increase in Health Care Cost Trend Rate (000's)	**$ 6,084**	$ 6,282	$ 6,381
Effect of 1% Decrease in Health Care Cost Trend Rate (000's)	**$(4,890)**	$(5,030)	$(5,091)

The Discount Rate assumptions used in determining retirement plan costs and retirement plan obligations are based on a market average of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. For 2008, 2007 and 2006, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $200,000 in the Net Periodic Benefit Cost (NPBC). The Rate of Compensation Increase assumption used for 2008, 2007 and 2006 was 3.50%, based on the expected long-term increase in compensation costs for personnel covered by the plans.

The Expected Long-Term Rate of Return on plan assets assumption used by the Company is developed based on input from actuaries and investment managers. The Company's Expected Long-Term Rate of Return on plan assets is based on target investment allocation of 60% in common stock equities and 40% in fixed income securities. The actual investment allocations are shown in the table below.

	Target Allocation 2009	Actual Allocation at December 31, 2008	2007	2006
Equity Securities	58%	**54%**	57%	61%
Debt Securities	32%	**35%**	43%	39%
Other	10%	**11%**	0%	0%
Total		**100%**	100%	100%

The combination of these target allocations and expected returns resulted in the overall assumed long-term rate of return of 8.50% for 2008. The Company evaluates the actuarial assumptions, including the expected rate of return, at least annually. The desired investment objective is a long-term rate of return on assets that is approximately 6% greater than the assumed rate of inflation as measured by the Consumer Price Index. The target rate of return for the Plans has been based upon an analysis of historical returns supplemented with an economic and structural review for each asset class.

The following table provides the components of the Company's Retirement plan costs ($000's):

	Pension Plan			PBOP Plan			SERP		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Service Cost	**$ 1,979**	$ 1,968	$ 1,800	**$ 1,447**	$ 1,431	$ 1,283	**$150**	$163	$148
Interest Cost	**3,800**	3,336	3,153	**2,212**	2,057	2,028	**126**	118	103
Expected Return on Plan Assets	**(4,390)**	(4,195)	(3,775)	**(325)**	(245)	(194)	**—**	—	—
Prior Service Cost Amortization	**119**	106	107	**1,390**	1,360	1,360	**(1)**	(2)	(2)
Transition Obligation Amortization	**—**	—	—	**21**	21	21	**—**	—	17
Actuarial Loss Amortization	**1,274**	1,345	1,324	**—**	70	160	**24**	44	39
Sub-total	**2,782**	2,560	2,609	**4,745**	4,694	4,658	**299**	323	305
Amounts Capitalized and Deferred	**(893)**	(873)	(1,014)	**(1,872)**	(2,033)	(2,217)	**—**	—	—
NPBC Recognized	**$ 1,889**	$ 1,687	$ 1,595	**$ 2,873**	$ 2,661	$ 2,441	**$299**	$323	$305

The estimated amortizations related to Actuarial Loss and Prior Service Cost included in the Company's Retirement plan costs over the next fiscal year is $1.9 million, $1.7 million and $0.1 million for the Pension, PBOP and SERP plans, respectively.

The Company bases the actuarial determination of pension expense on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a three-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the fair value of assets. Since the market-related value of assets recognizes gains or losses over a three-year period, the future value of the market-related assets will be impacted as previously deferred gains or losses are recognized. The Company's pension expense for the years 2008, 2007 and 2006 before capitalization and deferral was $2.8 million, $2.6 million and $2.6 million, respectively. Had the Company used the fair value of assets instead of the market-related value, pension expense for the years 2008, 2007 and 2006 would have been $2.9 million, $2.5 million and $2.8 million respectively.

The following table represents information on the plans' assets, projected benefit obligations (PBO), and funded status ($000's):

	Pension Plan		PBOP Plan		SERP	
Change in Plan Assets:	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Plan Assets at Beginning of Year	**$ 52,162**	$ 49,527	**$ 4,144**	$ 3,052	**$ —**	$ —
Actual Return on Plan Assets	**(15,542)**	2,480	**(784)**	89	**—**	—
Employer Contributions	**2,800**	2,800	**2,700**	2,500	**59**	72
Estimated Acquired Plan Assets	**2,500**	—	**—**	—	**—**	—
Benefits Paid	**(2,796)**	(2,645)	**(1,699)**	(1,497)	**(59)**	(72)
Plan Assets at End of Year	**$ 39,124**	$ 52,162	**$ 4,361**	$ 4,144	**$ —**	$ —
Change in PBO:						
PBO at Beginning of Year	**$ 64,429**	$ 62,027	**$ 37,983**	$ 38,107	**$ 2,144**	$ 2,179
Service Cost	**1,979**	1,968	**1,447**	1,431	**150**	163
Interest Cost	**3,800**	3,336	**2,212**	2,057	**126**	118
Estimated Acquired Obligations	**4,442**	—	**2,610**	—	**—**	—
Benefits Paid	**(2,796)**	(2,645)	**(1,699)**	(1,497)	**(59)**	(72)
Actuarial (Gain) or Loss	**(1,468)**	(257)	**(4,898)**	(2,115)	**569**	(244)
PBO at End of Year	**$ 70,386**	$ 64,429	**$ 37,655**	$ 37,983	**$ 2,930**	$ 2,144
Funded Status: Assets vs PBO	**$(31,262)**	$(12,267)	**$(33,294)**	$(33,839)	**$(2,930)**	$(2,144)

In September 2006, the FASB issued SFAS No. 158 which requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations based on the projected benefit obligation. The Company has recognized Regulatory Assets of $45.5 million and $35.1 million at December 31, 2008 and 2007, respectively, to recognize the future collection of these plan obligations in electric and gas rates.

In accordance with SFAS No. 132 "Employers Disclosures about Pensions and Other Postretirement Benefits," the Accumulated Benefit Obligation (ABO) is required to be disclosed for all plans where the ABO is in excess of plan assets. The difference between the PBO and the ABO is that the PBO includes projected compensation increases. The ABO for the Pension Plan was $61.1 million and $55.1 million as of December 31, 2008 and 2007, respectively. The ABO for the SERP was $0.5 million and $0.6 million as of December 31, 2008 and 2007, respectively. For the PBOP Plan, the ABO and PBO are the same.

On August 17, 2006, the Pension Protection Act of 2006 (PPA) was signed into law. Included in the PPA were new minimum funding rules which went into effect for plan years beginning in 2008. The funding target was 100% of a plan's liability (as determined under the PPA) with any shortfall amortized over seven years, with lower (92% - 100%) funding targets available to well-funded plans during the transition period. Due to the significant declines in the valuation of capital markets during 2008, the Worker, Retiree, and Employer Recovery Act of 2008 (Recovery Act) was signed into law on December 23, 2008. Included in the Recovery Act are temporary modifications to the minimum funding rules set forth in the PPA such that all plans, except those that were subject to deficit reduction contribution requirements in

2007, are allowed to amortize any shortfall from the lower funding targets, rather than the 100% target, for the 2008 - 2010 plan years. This did not affect the Company's Pension Plan in 2008 as its Pension Plan was 99% funded under the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as of January 1, 2008 and met the exemption from the shortfall amortization. The Company expects to contribute approximately $4.0 million to fund its Pension Plan in 2009.

The following table represents employer contributions and benefit payments ($000's). There were no participant contributions.

	Pension Plan			PBOP Plan			SERP		
	2008	**2007**	**2006**	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
Employer Contributions	**$2,800**	$2,800	$2,510	**$2,700**	$2,500	$2,210	**$59**	$72	$72
Benefit Payments	**$2,796**	$2,645	$2,476	**$1,699**	$1,497	$1,540	**$59**	$72	$72

The following table represents estimated future benefit payments ($000's).

	Estimated Future Benefit Payments		
	Pension	**PBOP**	**SERP**
2009	$ 3,356	$ 1,360	$ 52
2010	3,557	1,554	51
2011	3,718	1,709	50
2012	3,834	1,844	49
2013	4,166	1,983	315
2014 - 2018	$23,669	$11,555	$1,551

Employee 401(k) Tax Deferred Savings Plan—The Company sponsors the Unitil Corporation Tax Deferred Savings and Investment Plan (the 401(k) Plan) under Section 401(k) of the Internal Revenue Code and covering substantially all of the Company's employees. Participants may elect to defer current compensation by contributing to the plan. The Company matches contributions, with a maximum matching contribution of 3% of current compensation. Employees may direct, at their sole discretion, the investment of their savings plan balances (both the employer and employee portions) into a variety of investment options, including a Company common stock fund. Participants are 100% vested in contributions made on their behalf, once they have completed three years of service. The Company's share of contributions to the 401(k) Plan was $542,000, $533,000 and $528,000 for the years ended December 31, 2008, 2007, and 2006, respectively.

Note 11: Segment Information

Unitil reports four segments: utility electric operations, utility gas operations, other, and non-regulated. Unitil's principal business is the local distribution of electricity in the southeastern seacoast and state capitol regions of New Hampshire and the greater Fitchburg area of north central Massachusetts and the local distribution of natural gas in southeastern New Hampshire, portions of southern Maine to the Lewiston-Auburn area and in the greater Fitchburg area of north central Massachusetts. Unitil has three distribution utility subsidiaries, Unitil Energy, which operates in New Hampshire, Fitchburg, which operates in Massachusetts and Northern Utilities, which operates in New Hampshire and Maine.

Granite State is an interstate natural gas transmission pipeline company, operating 87 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to three major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north. Granite State derives its revenues principally from the transmission services provided to Northern Utilities and, to a lesser extent, third-party marketers.

Unitil Resources is the Company's wholly owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to large commercial and industrial customers in the northeastern United States. Unitil Realty and Unitil Service provide centralized facilities, operations and administrative services to support the affiliated Unitil companies.

Unitil Realty, Unitil Service and the holding company are included in the “Other” column of the table below. Unitil Service provides centralized management and administrative services, including information systems management and financial record keeping. Unitil Realty owns certain real estate, principally the Company’s corporate headquarters. The earnings of the holding company are principally derived from income earned on short-term investments and real property owned for Unitil and its subsidiaries’ use. Unitil Resources and Usource are included in the Non-Regulated column below.

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

The following table provides significant segment financial data for the years ended December 31, 2008, 2007 and 2006 (Millions):

Year Ended December 31, 2008	Electric	Gas	Other	Non-Regulated	Total
Revenues	**$227.5**	**$ 56.9**	**$ —**	**$ 3.8**	**$288.2**
Interest Income	**2.2**	**0.1**	**0.3**	**—**	**2.6**
Interest Expense	**8.7**	**2.3**	**2.1**	**—**	**13.1**
Depreciation & Amortization Expense	**13.1**	**5.2**	**0.8**	**—**	**19.1**
Income Tax Expense (Benefit)	**1.9**	**2.6**	**(0.3)**	**0.2**	**4.4**
Segment Profit (Loss)	**5.2**	**4.3**	**(0.2)**	**0.3**	**9.6**
Segment Assets	**351.9**	**362.3**	**20.0**	**1.0**	**735.2**
Capital Expenditures	**19.7**	**7.6**	**1.0**	**—**	**28.3**
Year Ended December 31, 2007					
Revenues	$225.0	$ 34.2	$ —	$ 3.7	$262.9
Interest Income	2.8	0.1	0.5	—	3.4
Interest Expense	9.6	2.1	1.3	—	13.0
Depreciation & Amortization Expense	12.6	3.8	1.3	0.1	17.8
Income Tax Expense (Benefit)	3.8	0.4	0.1	0.2	4.5
Segment Profit (Loss)	7.3	1.0	—	0.3	8.6
Segment Assets	334.1	111.9	27.8	0.8	474.6
Capital Expenditures	26.2	6.1	0.2	—	32.5
Year Ended December 31, 2006					
Revenues	$225.2	$ 33.3	$ —	$ 2.4	$260.9
Interest Income	3.0	0.1	0.4	—	3.5
Interest Expense	9.5	1.1	0.6	0.1	11.3
Depreciation & Amortization Expense	11.2	3.5	1.3	0.1	16.1
Income Tax Expense (Benefit)	4.2	0.1	0.1	(0.1)	4.3
Segment Profit (Loss)	7.0	0.5	0.6	(0.2)	7.9
Segment Assets	346.7	113.1	22.7	0.9	483.4
Capital Expenditures	26.3	7.2	0.1	—	33.6

Note 12: Quarterly Financial Information (unaudited; Millions, except per share data)

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

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	2008	2007	2008	2007	2008	2007	2008	2007
Total Operating Revenues	**$ 71.9**	$ 77.8	**$ 59.4**	$ 59.0	**$ 69.1**	$ 61.8	**$ 87.8**	$ 64.3
Operating Income	**$ 6.0**	$ 4.7	**$ 4.2**	$ 4.3	**$ 3.9**	$ 3.9	**$ 6.4**	$ 5.6
Net Income Applicable to Common	**$ 3.3**	$ 2.6	**$ 1.6**	$ 1.7	**$ 1.5**	$ 1.6	**$ 3.2**	$ 2.7
	Per Share Data:							
Earnings Per Common Share	**$ 0.57**	$ 0.46	**$ 0.28**	$ 0.30	**$ 0.27**	$ 0.28	**$ 0.53**	$ 0.48
Dividends Paid Per Common Share	**$0.345**	$0.345	**$0.345**	$0.345	**$0.345**	$0.345	**$0.345**	$0.345

Note 13: Unaudited Pro Forma Financial Data Related To Acquisitions

On December 1, 2008, the Company acquired Northern Utilities and Granite State, as discussed in Note 3. Had the results of operations for Northern Utilities and Granite State been combined with the Company as of the beginning of 2007, the Company's pro forma results for 2008 and 2007 would have been as follows:

	Year ended December 31,	
(Millions, except per share amounts) (Unaudited)	2008	2007
Revenues	**$395.5**	$396.2
Earnings Applicable to Common Shareholders	**$ 6.9**	$ 10.2
Earnings per Share		
Basic	**$ 0.88**	$ 1.33
Diluted	**$ 0.88**	$ 1.33

The Unaudited Pro Forma Financial Data include non-recurring charges to operating expenses of $1.7 million, after tax, related to compliance violation penalties incurred by Northern Utilities in 2007 and $2.5 million, after tax, related to compliance violation penalties incurred by Northern Utilities in 2008.

The Unaudited Pro Forma Financial Data are presented for illustrative purposes only and do not indicate the financial results of the combined companies had the companies actually been combined and had the impact of possible revenue enhancements and expense efficiencies, among other factors, been considered, and is not intended to be a projection of future results.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Management of the Company, under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2008. Based upon this evaluation, the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded as of December 31, 2008 that the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) are effective.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). In addition, management is required to report their assessment, including their evaluation criteria, on the design and operating effectiveness of the Company's internal control over financial reporting in this Form 10-K.

The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. The Company's internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes policies and procedures which provide reasonable assurances that transactions are properly initiated, authorized, recorded, reported and disclosed, and provide reasonable assurances regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During 2008, management conducted an assessment of the Company's internal control over financial reporting reflected in the financial statements, based upon criteria established in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Our assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Northern Utilities, Inc. and Granite State Gas Transmission, Inc., businesses that we acquired on December 1, 2008 and which are included in the Company's 2008 consolidated financial statements. Total assets for Northern Utilities and Granite State were $250.8 million and $22.9 million, respectively, as of December 31, 2008. Total revenues for Northern Utilities and Granite State were $21.8 million and $0.4 million, respectively, for the year ended December 31, 2008, reflecting the period of December 1, 2008 through December 31, 2008.

Based on management's assessment, which included a comprehensive review of the design and operating effectiveness of the Company's internal control over financial reporting, management believes the Company's internal control over financial reporting is designed and operating effectively as of December 31, 2008.

The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by Vitale, Caturano and Company, an independent registered public accounting firm. Their report appears in Item 8.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors and Executive Officers of the Registrant

Information required by this Item is set forth in Part I, Item 1 of this Form 10-K. Information regarding the Company's Code of Ethics is set forth in the "Corporate Governance and Policies of the Board" section of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 16, 2009.

Item 11. Executive Compensation

Information required by this Item is set forth in the "Compensation Discussion and Analysis" and "Compensation of Named Executive Officers" sections of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 16, 2009.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item is set forth in the "Beneficial Ownership" and "As to the Election of Directors" sections of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 16, 2009, as well as the Equity Compensation Plan Benefit Information table in Part II, Item 5 of this Form 10-K.

Item 13. Certain Relationships and Related Transactions

None

Item 14. Principal Accountant Fees and Services

Information required by this Item is set forth in the "Principal Accountant Fees and Services" section of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 16, 2009.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) and (2) – **LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES**

The following financial statements are included herein under Part II, Item 8, Financial Statements and Supplementary Data:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets—December 31, 2008 and 2007
- Consolidated Statements of Earnings for the years ended December 31, 2008, 2007, and 2006
- Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007, and 2006
- Consolidated Statements of Changes in Common Stock Equity for the years ended December 31, 2008, 2007, and 2006
- Notes to Consolidated Financial Statements

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, are not applicable, or information required is included in the financial statements or notes thereto and, therefore, have been omitted.

(3) – **LIST OF EXHIBITS**

Exhibit Number	Description of Exhibit	Reference*
3.1	Articles of Incorporation of the Company.	Exhibit 3.1 to Form S-14 Registration Statement 2-93769
3.2	Articles of Amendment to the Articles of Incorporation Filed on March 4, 1992.	Exhibit 3.2 to Form 10-K for 1991
3.3	Articles of Amendment to the Articles of Incorporation Filed on September 23, 2008.	Exhibit 3.3 to Form S-3/A dated November 25, 2008
3.4	By-laws of the Company.	Exhibit 4 to Form S-8 Registration Statement 333-73327
3.5	Articles of Exchange of Concord Electric Company (CECo), Exeter & Hampton Electric Company (E&H) and the Company.	Exhibit 3.3 to 10-K for 1984
3.6	Articles of Exchange of CECo, E&H, and the Company - Stipulation of the Parties Relative to Recordation and Effective Date.	Exhibit 3.4 to Form 10-K for 1984
3.7	The Agreement and Plan of Merger dated March 1, 1989 among the Company, Fitchburg Gas and Electric Light Company (Fitchburg) and UMC Electric Co., Inc. (UMC).	Exhibit 25(b) to Form 8-K dated March 1, 1989
3.8	Amendment No. 1 to The Agreement and Plan of Merger dated March 1, 1989 among the Company, Fitchburg and UMC.	Exhibit 28(b) to Form 8-K dated December 14, 1989

Exhibit Number	Description of Exhibit	Reference*
4.1	Twelfth Supplemental Indenture of Unitil Energy Systems, Inc., successor to Concord Electric Company, dated as of December 2, 2002, amending and restating the Concord Electric Company Indenture of Mortgage and Deed of Trust dated as of July 15, 1958.	Exhibit 4.1 to Form 10-K for 2002
4.2	Fitchburg Note Agreement dated November 30, 1993 for the 6.75% Notes due November 23, 2023.	Exhibit 4.18 to Form 10-K for 1993
4.3	Fitchburg Note Agreement dated January 26, 1999 for the 7.37% Notes due January 15, 2028.	Exhibit 4.25 to Form 10-K for 1999
4.4	Fitchburg Note Agreement dated June 1, 2001 for the 7.98% Notes due June 1, 2031.	Exhibit 4.6 to Form 10-Q for June 30, 2001
4.5	Unitil Realty Corp. Note Purchase Agreement dated July 1, 1997 for the 8.00% Senior Secured Notes due August 1, 2017.	Exhibit 4.22 to Form 10-K for 1997
4.6	Fitchburg Note Agreement dated October 15, 2003 for the 6.79% Notes due October 15, 2025.	Exhibit 4.7 to Form 10-K for 2003
4.7	Fitchburg Note Agreement dated December 21, 2005 for the 5.90% Notes due December 15, 2030.	**
4.8	Thirteenth Supplemental Indenture of Unitil Energy Systems, Inc., dated as of September 26, 2006.	**
4.9	Unitil Corporation Note Purchase Agreement, dated as of May 2, 2007, for the 6.33% Senior Notes due May 1, 2022.	**
4.10	Northern Utilities Note Purchase Agreement, dated as of December 3, 2008, for the 6.95% Senior Notes, Series A due December 3, 2018 and the 7.72% Senior Notes, Series B due December 3, 2038.	Exhibit 4.1 to Form 8-K dated December 3, 2008
4.11	Granite State Note Purchase Agreement, dated as of December 15, 2008, for the 7.15% Senior Notes due December 15, 2018	Exhibit 99.1 to Form 8-K dated December 15, 2008
10.1	Unitil System Agreement dated June 19, 1986 providing that Unitil Power will supply wholesale requirements electric service to CECo and E&H.	Exhibit 10.9 to Form 10-K for 1986
10.2	Supplement No. 1 to Unitil System Agreement providing that Unitil Power will supply wholesale requirements electric service to CECo and E&H.	Exhibit 10.8 to Form 10-K for 1987
10.3	Transmission Agreement between Unitil Power Corp. and Public Service Company of New Hampshire, effective November 11, 1992.	Exhibit 10.6 to Form 10-K for 1993
10.4***	Amended and Restated Form of Severance Agreement between the Company and the persons listed at the end of such Agreement.	Exhibit 10.2 to Form 8-K dated June 19, 2008
10.5***	Amended and Restated Form of Severance Agreement between the Company and the persons listed at the end of such Agreement.	Exhibit 10.3 to Form 8-K dated June 19, 2008
10.6***	Amended and Restated Unitil Corporation Supplemental Executive Retirement Plan effective as of December 31, 2007.	Exhibit 10.4 to Form 8-K dated June 19, 2008

Exhibit Number	Description of Exhibit	Reference*
10.7***	Unitil Corporation 1998 Stock Option Plan.	Exhibit 10.12 to Form 10-K for 1998
10.8***	Amended and Restated Unitil Corporation Management Incentive Plan effective as of June 19, 2008 as further amended on December 1, 2008.	Filed herewith
10.9	Entitlement Sale and Administrative Service Agreement with Select Energy.	Exhibit 10.14 to Form 10-K for 1999
10.10***	Unitil Corporation 2003 Restricted Stock Plan.	Exhibit 10.16 to Form 10-K for 2002
10.11	Portfolio Sale and Assignment and Transition Service and Default Service Supply Agreement By and Among Unitil Power Corp., Unitil Energy Systems, Inc. and Mirant Americas Energy Marketing, LP.	Exhibit 10.17 to Form 10-K for 2002
10.12	Unitil Corporation Tax Deferred Savings and Investment Plan – Trust Agreement.	Exhibit 10.1 to Form 10-Q for September 30, 2004
10.13***	Amended and Restated Employment Agreement effective as of June 30, 2008 by and between Unitil Corporation and Robert G. Schoenberger.	Exhibit 10.1 to Form 8-K dated June 19, 2008
10.14	Credit Agreement between Unitil Corporation and Bank of America, N.A. dated November 26, 2008	Exhibit 10.1 to Form 8-K dated November 26, 2008
10.15	Amendment Agreement dated as of January 2, 2009 to the Credit Agreement between Unitil Corporation and Bank of America, N.A. dated November 26, 2008	Exhibit 10.1 to Form 8-K dated January 2, 2009
10.16	Credit Agreement between Unitil Corporation and Royal Bank of Canada dated December 1, 2008	Exhibit 10.2 to Form 8-K dated November 26, 2008
10.17	Transition Services Agreement between Unitil Corporation and NiSource, Inc. dated December 1, 2008	Exhibit 10.3 to Form 8-K dated November 26, 2008
10.18	Parent Guaranty of Unitil Corporation for the Granite State 7.15% Senior Notes due December 15, 2018	Exhibit 10.1 to Form 8-K dated December 15, 2008
11.1	Statement Re: Computation in Support of Earnings per Share For the Company.	Filed herewith
12.1	Statement Re: Computation in Support of Ratio of Earnings to Fixed Charges for the Company.	Filed herewith
21.1	Statement Re: Subsidiaries of Registrant.	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm.	Filed herewith
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.3	Certification of Chief Accounting Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith

Exhibit Number	Description of Exhibit	Reference*
32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

* The exhibits referred to in this column by specific designations and dates have heretofore been filed with the Securities and Exchange Commission under such designations and are hereby incorporated by reference.

** In accordance with Item 601(b)(4)(iii)(A) of Federal Securities Regulation S-K, the instrument defining the debt of the Registrant and its subsidiary, described above, has been omitted but will be furnished to the Commission upon request.

*** These exhibits represent a management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITIL CORPORATION

Date February 18, 2009

By /s/ ROBERT G. SCHOENBERGER

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

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ ROBERT G. SCHOENBERGER **Robert G. Schoenberger**	Principal Executive Officer; Director	February 18, 2009
/s/ MARK H. COLLIN **Mark H. Collin**	Principal Financial Officer	February 18, 2009
/s/ LAURENCE M. BROCK **Laurence M. Brock**	Principal Accounting Officer	February 18, 2009
/s/ MICHAEL J. DALTON **Michael J. Dalton**	Director	February 18, 2009
/s/ ALBERT H. ELFNER, III **Albert H. Elfner, III**	Director	February 18, 2009
/s/ M. BRIAN O'SHAUGHNESSY **M. Brian O'Shaughnessy**	Director	February 18, 2009
/s/ CHARLES H. TENNEY, III **Charles H. Tenney, III**	Director	February 18, 2009
/s/ DR. SARAH P. VOLL **Dr. Sarah P. Voll**	Director	February 18, 2009
/s/ EBEN S. MOULTON **Eben S. Moulton**	Director	February 18, 2009
/s/ DAVID P. BROWNELL **David P. Brownell**	Director	February 18, 2009
/s/ EDWARD F. GODFREY **Edward F. Godfrey**	Director	February 18, 2009
/s/ MICHAEL B. GREEN **Michael B. Green**	Director	February 18, 2009
/s/ DR. ROBERT V. ANTONUCCI **Dr. Robert V. Antonucci**	Director	February 18, 2009

Exhibit 11.1

UNITIL CORPORATION

COMPUTATION IN SUPPORT OF EARNINGS PER SHARE

	Year Ended December 31,		
	2008	2007	2006
EARNINGS PER SHARE (000's, except per share data)			
Net Income	**$9,735**	$8,746	$8,033
Less: Dividend Requirements on Preferred Stock	**135**	136	133
Net Income Applicable to Common Stock	**$9,600**	$8,610	$7,900
Average Number of Common Shares Outstanding—Basic	**5,830**	5,659	5,597
Dilutive Effect of Stock Options and Restricted Stock	**—**	13	15
Average Number of Common Shares Outstanding—Diluted	**5,830**	5,672	5,612
Earnings Per Share—Basic	**$ 1.65**	$ 1.52	$ 1.41
Earnings Per Share—Diluted	**$ 1.65**	$ 1.52	$ 1.41

Exhibit 12.1

UNITIL CORPORATION

COMPUTATION IN SUPPORT OF RATIO OF EARNINGS TO FIXED CHARGES

	Year Ended December 31,				
	2008	2007	2006	2005	2004
(000's, except ratios)					
Earnings:					
Net Income, per Consolidated Statement of Earnings	**$ 9,735**	$ 8,746	$ 8,033	$ 8,553	$ 8,226
Federal and State Income Taxes included in Operations	**4,450**	4,482	4,266	4,275	4,206
Interest on Long-Term Debt	**11,795**	10,919	9,404	8,319	8,394
Amortization of Debt Discount Expense	**151**	136	112	104	98
Other Interest	**1,156**	1,949	1,675	1,046	629
Total	**$27,287**	$26,232	$23,490	$22,297	$21,553
Fixed Charges:					
Interest of Long-Term Debt	**$11,795**	$10,919	$ 9,404	$ 8,319	$ 8,394
Amortization of Debt Discount Expense	**151**	136	112	104	98
Other Interest	**1,156**	1,949	1,675	1,046	629
Pre-tax Preferred Stock Dividend Requirements	**199**	213	208	234	325
Total	**$13,301**	$13,217	$11,399	$ 9,703	$ 9,446
Ratio of Earnings to Fixed Charges	**2.05**	1.98	2.06	2.30	2.28

Exhibit 21.1

Subsidiaries of Registrant

The Company or the registrant has eight wholly-owned subsidiaries, seven of which are corporations organized under the laws of the State of New Hampshire: Unitil Energy Systems, Inc., Northern Utilities, Inc., Granite State Gas Transmission, Inc., Unitil Power Corp., Unitil Realty Corp., Unitil Resources, Inc. and Unitil Service Corp. The eighth, Fitchburg Gas and Electric Light Company, is organized under the laws of the State of Massachusetts. Usource, Inc., which is a corporation organized under the laws of the State of Delaware, is a wholly-owned subsidiary of Unitil Resources, Inc. Usource, Inc. is the sole member of Usource L.L.C., which is a corporation organized under the laws of the State of Delaware.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of Unitil Corporation and subsidiaries on Form S-3 (File No. 333-152823 effective December 5, 2008), Form S-8 (File No. 333-114978 effective April 29, 2004), Form S-3 (File No. 333-42264 effective July 26, 2000) and on Form S-8 (File No. 333-42266 effective July 26, 2000) of our report dated February 13, 2009, relating to the consolidated financial statements of Unitil Corporation and subsidiaries (the Company) as of December 31, 2008 and 2007 and the three years ending December 31, 2008 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, appearing in the Annual Report of the Company on Form 10-K for the year ended December 31, 2008.

Vitale, Caturano & Company, P.C.

Boston, Massachusetts
February 17, 2009

Exhibit 31.1

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert G. Schoenberger, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 18, 2009

/s/ Robert G. Schoenberger

Robert G. Schoenberger
Chief Executive Officer and President

Exhibit 31.2

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark H. Collin, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 18, 2009

/s/ Mark H. Collin

Mark H. Collin
Chief Financial Officer

Exhibit 31.3

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Laurence M. Brock, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 18, 2009

/s/ Laurence M. Brock
Laurence M. Brock
Chief Accounting Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Unitil Corporation (the "Company") on Form 10-K for the year ending December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned Robert G. Schoenberger, Chief Executive Officer and President, Mark H. Collin, Chief Financial Officer and Laurence M. Brock, Chief Accounting Officer, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Signature	Capacity	Date
/s/ Robert G. Schoenberger Robert G. Schoenberger	Chief Executive Officer and President	February 18, 2009
/s/ Mark H. Collin Mark H. Collin	Chief Financial Officer	February 18, 2009
/s/ Laurence M. Brock Laurence M. Brock	Chief Accounting Officer	February 18, 2009

Shareholder Information

2009 Annual Meeting

The Annual Meeting of Shareholders is scheduled to be held at the office of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Thursday, April 16, 2009, at 10:30 a.m.

Investor Information

The Company's Transfer Agent, Computershare Trust Company, N.A. ("Computershare"), is responsible for all shareholder records, including stock transfer and the distribution of dividends, tax documents and annual meeting materials. Shareholder requests regarding these and other matters can be addressed by corresponding directly with Computershare at:

Mail:	P.O. Box 43078 Providence, RI 02940-3078
Telephone:	800-736-3001
Internet:	ww.computershare.com

For information about the Company and your investment, you may also call the Company directly, toll-free, at: 800-999-6501 and ask for the Shareholder Representative; or visit the Investor Relations page at www.unitil.com.

Shareholder Programs

Dividend Reinvestment Plan

A Dividend Reinvestment and Stock Purchase Plan is available to all holders of record of the Company's Common Stock. This Plan provides shareholders with an economical means to increase their investment in the Company each quarter by reinvesting their dividends without broker fees. For additional information or enrollment, please contact the Company or Computershare.

Dividend Direct Deposit

Dividend Direct Deposit Service is available without charge to shareholders of record of the Company's Common Stock. For further information or enrollment in this service, please contact the Company or Computershare.

Direct Registration

The Company's Common Stock is eligible for Direct Registration or "DRS," which is available without charge to shareholders of record. DRS is a service within the securities industry that allows shares to be held and tracked electronically, without having to retain a physical stock certificate. For additional information, please contact Computershare at:

Mail:	P.O. Box 43084 Providence, RI 02940-3084
Telephone:	800-935-9330
Internet:	www.computershare.com

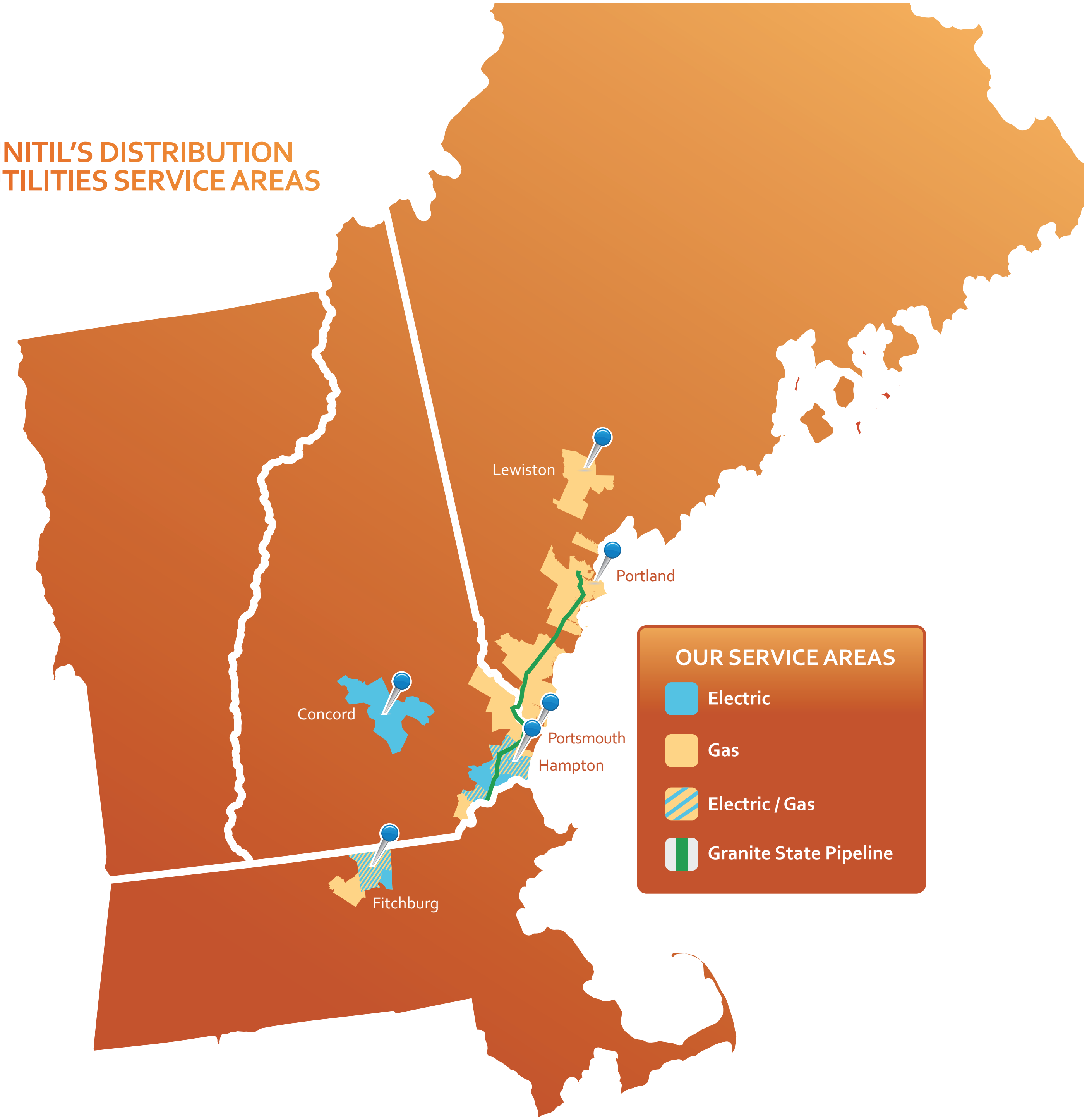
Unitil Corporation • 6 Liberty Lane West • Hampton, NH 03842-1720
603-772-0775 • www.unitil.com

002CS-17860

Unitil

Annual Report 2009

UNITIL'S DISTRIBUTION UTILITIES SERVICE AREAS



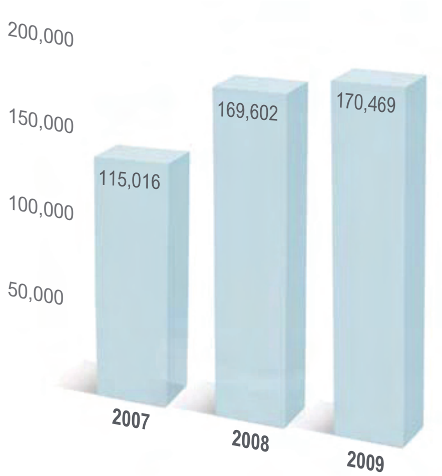
ABOUT UNITIL

Unitil Corporation is a public utility holding company headquartered in Hampton, New Hampshire. Unitil's principal business is the local distribution of electricity and natural gas in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three distribution utilities: Unitil Energy Systems, Inc., which provides electric service in the southeastern seacoast and state capital regions of New Hampshire; Fitchburg Gas and Electric Light Company, which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts; and Northern Utilities, Inc., which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine. In addition, Unitil is the parent company of Granite State Gas Transmission, Inc., an interstate natural gas transmission pipeline in New Hampshire and Maine. Unitil's non-regulated business, Usource, provides energy brokering and advisory services to large commercial and industrial customers throughout the northeastern United States.

FINANCIAL HIGHLIGHTS*

	2009	2008	2007
Financial Data (Millions)			
Total Operating Revenues	$367.0	$288.2	$262.9
Total Operating Income	$26.1	$20.5	$18.5
Earnings Applicable to Common	$9.9	$9.6	$8.6
Capital Expenditures	$58.7	$28.3	$32.5
Net Utility Plant	$449.7	$422.8	$248.9
Common Share Data			
Diluted Earnings per Share	$1.03	$1.65	$1.52
Dividends Paid Per Common Share	$1.38	$1.38	$1.38
Book Value Per Share (Year-End)	$17.83	$17.90	$17.50
Market Price (Year-end)	$22.98	$20.65	$28.51
Average Common Shares Outstanding (000's)	9,647	5,830	5,672
Operating Data			
Electric Distribution Sales (Millions of kWh)	1,618.8	1,695.9	1,743.0
Firm Gas Distribution Sales (Millions of Therms)	178.7	47.2	28.4
Customers Served (Year-End)	170,469	169,602	115,016
Electric Customers Served (Year-End)	100,498	100,324	99,947
Gas Customers Served (Year-End)	69,971	69,278	15,069

Total Customers Served
(year-end)



Net Utility Plant
($ millions)

Earnings Applicable to Common
($ Millions)

* Financial Highlights reflect Unitil's acquisition on December 1, 2008, of Northern Utilities, Inc. and Granite State Gas Transmission, Inc.

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

TO our SHAREHOLDERS

2009 was a new chapter in your Company's history.

We successfully completed the financing and integration of our acquisition of Northern Utilities and the Granite State Gas Transmission pipeline. The acquisition increased our customer base by 50%, adding almost 55,000 natural gas customers in Maine and New Hampshire. It doubled our sales margin and diversified our earnings base, producing a Company that is equally balanced between electric and natural gas operations. Our ability to acquire these utility assets, to finance them in the most difficult financial markets in a generation, and to seamlessly integrate such operations into Unitil positions us well for future growth opportunities.

We welcomed 145 new employees to our Company last year, which includes the existing employees of Northern Utilities and Granite State and 65 new professional positions added to the local economy during a deep recession. We attracted first rate talent to staff new utility operations with employees that add depth to our management and our technical expertise.

We also dealt with a number of legacy issues arising from the devastating ice storm of December 2008. We completed comprehensive legislative and regulatory reviews of our performance during the storm and completed an independent, in-depth review of our emergency preparedness processes and procedures. Every employee is now trained for a second internal job in the event of an emergency. We have invested in new systems and technology, including an outage management system, to keep state and local officials and our customers well informed during an event. We conducted several full-scale emergency planning drills during the year and will do so again each year to ensure we remain prepared. Our employees responded heroically to the incredible challenges posed for our Company by the ice storm of December 2008 and its aftermath.

Our overarching commitment to our shareholders over the next several years is to increasingly realize the earnings power of our Company and fully exploit new growth opportunities that enhance shareholder value. Our updated strategic plan focuses on three main areas: regulation, customer service, and growth. I will discuss each of these areas below.

2009 Financial Results

2009 financial results were well below our expectations. We earned $1.03 per share in 2009 compared to $1.65 per share in 2008. Our results in 2009 were impacted unfavorably by two significant non-recurring items.

First, we incurred $3 million in professional fees specifically related to various regulatory and legislative inquiries and to the comprehensive review and enhancement of our emergency preparedness plans in the aftermath of the December 2008 ice storm. Second, we were ordered by the Massachusetts Department of Public Utilities to refund $4.9 million of natural gas supply costs to our Fitchburg customers as the result of a finding, with which we strongly disagree, related to the Company's gas supply procurement practices. While this refund will be made over a five-year period, we recognized a one time non-recurring accounting charge for this amount. We appealed this order to the Massachusetts Judicial Supreme Court and believe we have a strong case to overturn this decision. The appeal process likely will take a couple of years to complete.

Excluding these two non-recurring charges, we earned $1.57 per share in 2009, or eight cents per share less than the previous year. We believe this is more reflective of the core earnings of our Company in 2009, particularly given the impact of the ongoing recession on our sales. It is clear, however, that our Company was "stress tested" over the last 12 months. We confronted these challenges and are stronger as a result.

Our Company spent almost $23 million for the repair and replacement of electric distribution systems damaged last year. This represents nearly half of what we spent in 2009 on normal property, plant, and equipment needs. Massachusetts and New Hampshire regulatory officials approved orders allowing us to defer these costs and to seek future recovery in our next rate cases. We expect those reviews to begin in 2010.

The current economic downturn is one of the worst we have seen in a generation. We have seen our electric sales decline in each of the last four years. Although recently sales have stabilized, we expect 2010 to be another challenging year and have implemented strong cost control measures, including a pay and hiring freeze for the year, to help navigate this recession. We are continuously mindful of how this economy is adversely affecting our customers and state and local communities.

We also understand how important the dividend is to our shareholders. Despite the challenges we faced last year and expect in 2010, we have continued to pay a quarterly dividend of $0.34 per share, or $1.38 annually. Our Company's tradition of paying quarterly dividends has been uninterrupted since public trading of Unitil common stock began in 1985.

2010 is an important transition year for our Company. Our challenge is to manage costs as we execute a full regulatory agenda over the next two years to realize the full earnings power of our Company. We will continue to capitalize on the excellent growth prospects of our Usource subsidiary. We will aggressively explore the opportunity to expand our distribution footprint in the region. And we will do all this while reinforcing the level of reliability and quality of customer service our customers have come to expect.

Regulatory Agenda

Our Company has a full regulatory agenda ahead. We plan to file rate cases for most of our regulated utilities over the next 24 months. These proceedings will provide us an opportunity to update our base distribution rates to recover the significant capital investments made since our last rate case filings. In 2010, we plan to file rate cases for our distribution utilities in New Hampshire and Massachusetts. In addition, we will establish new rates for the Granite State Transmission pipeline later this year.

In Massachusetts we will seek to establish a revenue "decoupling" mechanism pursuant to a recently established regulatory policy designed to support the aggressive energy efficiency expansion initiative by the state's utilities. As the word would suggest, decoupling refers to a rate mechanism that separates the revenues a utility earns from the sales it makes. This model allows a utility to implement energy conservation policies and initiatives without adversely impacting its revenues. Revenue decoupling also helps mitigate the impact of various factors, including weather and the economy, on our financial returns.

We will propose a systematic cast iron replacement program, with an appropriate cost recovery proposal, for our newly acquired gas division in Maine this year. In 2011, we plan to file our first base rate case in Maine to recover past capital investments and to update rates to reflect our cost of service. We have completed many of the required post-acquisition reliability and safety projects for our gas operations, earning compliments from Maine regulatory officials for completing this work and for implementing new systems to ensure compliance with federal and state gas safety standards.

Customer Service

In July of 2009, we completed a successful and seamless integration of our new natural gas customers in New Hampshire and Maine into our Customer Information System and we welcomed their calls into our central Customer Service Center. The smoothness of this transition, complete within seven months of the acquisition, received high marks from customers and regulators in both states.

However, the problems we had communicating with our customers during the 2008 ice storm clearly showed we had a significant opportunity for improving service and communications in extreme emergency situations. We have renewed our commitment to first class customer service in significant ways, including adding new personnel, new technology, and new processes – all designed to make two-way communications easier and more user-friendly.

We started by completely overhauling our emergency preparedness plan and procedures. We adopted the national incident management system to focus the resources of the entire organization on responding to an emergency. This system, developed for federal emergency management purposes and now in use by many state and local governments and a number of utilities throughout the country, establishes a management infrastructure to marshal the resources of our Company to respond to an emergency in a safe and effective manner. We have met with emergency personnel in the communities we serve to coordinate planning efforts and to ensure we all can respond effectively to future events. Every employee in our Company has an assigned job during an emergency event. They will participate in emergency response drills each year to equip them with the latest training and best methods to respond to the needs of our customers during an event.

We also have hired additional call center personnel and have made significant investments in hardening our communications and technology infrastructure to ensure availability in emergency situations. We are in the process of redesigning our Company website to provide another interactive source of information for our customers, including the ability to use instant and mobile forms of communication, such as Twitter and Facebook, to communicate important updates and information.

We continued initiatives developed over the past few years to significantly upgrade our technology infrastructure and reliability for the next decade. We installed an advanced metering infrastructure (AMI) that provides two-way automatic meter reading and communications capabilities for all of our electric customers, an important step to meet the needs of the ongoing industry evolution toward energy efficiency and alternative energy technologies. The Company's AMI is being integrated with our other advanced technologies, including a state-of-the-art outage management system. In addition, we will conduct a pilot program in both Massachusetts and New Hampshire in 2010 on the deployment of advanced rate and information tools for customers using the AMI backbone. The pilot is one of several initiatives to gain an understanding of how all these technologies ultimately will work together in the operation of a truly smart grid.

Finally, we adopted new customer service performance metrics to ensure that we are being responsive to our customers needs. Unitil has long prided itself on having customer satisfaction ratings well above the national utility average; we are determined to meet the highest standards in the industry.

Growth

Our Company will continue to capitalize on its growth opportunities. We will market aggressively the increased use of natural gas to all our customer segments throughout the three states in which we operate, where the average penetration rate of natural gas as a heating fuel is only about 40%, compared to a nationwide rate of 80% to 90%. As the national supply of cost-effective, safe, and clean natural gas continues to expand, our Company has a timely opportunity to significantly increase its natural gas sales and regional market share.

We will explore real opportunities to acquire additional electric and gas utility distribution assets in the region. Having proved that we can acquire, finance, and integrate distribution assets and new customers into our systems, we are well positioned to acquire such assets for the right price if and when they should become available. We believe we have the management, technology, and service expertise to make additional asset acquisitions efficient and profitable for shareholders.

Usource earned $0.16 a share in 2009, triple its contribution in 2008. This was a result of a reduction in operating expenses, a customer retention rate of over 90%, and increased sales in its existing markets. As we look out at 2010 and beyond, we believe Usource has the opportunity to further contribute to our Company's bottom line. Pennsylvania is a major new market opportunity opening in 2010 and we are already there acquiring customers. As an energy broker serving customers in 18 states, Usource is a low-cost and low-risk vehicle for large energy users to participate in competitive energy markets for the electric and natural gas supply.

Summary

2009 was an incredibly challenging year. We completed a significant acquisition and added 55,000 natural gas customers in Maine and New Hampshire, doubling the size of Unitil. We responded to the aftermath of an epic ice storm. Juggling the demands of both these efforts, while running our Company during the worst recession in a generation, required all of our abilities and talents. We received both compliments and some intense criticism. Through it all we have emerged a stronger and more determined Company. I want to thank each of our employees who so gallantly rose to the challenges put before them. I also want to thank our shareholders, who supported us through these difficult times.

We have built a strong and talented team and have a solid plan to capitalize on our core competencies to grow our Company in a prudent and responsible manner. We take your investment in Unitil seriously and are committed to realizing its full value in the years ahead.

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

February 19, 2010

This Annual Report contains forward-looking statements, which are subject to the inherent uncertainties in predicting future results and conditions. All statements, other than statements of historical fact, are forward-looking statements. Certain factors that could cause the actual results to differ materially from those projected in these forward-looking statements include, but are not limited to the following: variations in weather (including major storms); recovery of deferred storm costs; changes in the regulatory environment; customers' preferences on energy sources; general economic conditions; increased competition; fluctuations in supply, demand, transmission capacity and prices for energy commodities; interest rate fluctuations and credit market concerns; and other risks and uncertainties described in the section entitled *Risk Factors* in the enclosed Annual Report on Form 10-K and Unitil Corporation's other filings with the Securities and Exchange Commission. Forward-looking statements speak only as of the date made, and the Company undertakes no obligation to update any forward-looking statements. Please also see *Cautionary Statement* beginning on page 22 of the enclosed Form 10-K.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-8858

UNITIL CORPORATION
(Exact name of registrant as specified in its charter)

New Hampshire	**02-0381573**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6 Liberty Lane West, Hampton, New Hampshire	**03842-1720**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (603) 772-0775

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, No Par Value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Based on the closing price of June 30, 2009, the aggregate market value of common stock held by non-affiliates of the registrant was $219,996,265.

The number of common shares outstanding of the registrant was 10,838,394 as of February 9, 2010.

Documents Incorporated by Reference:

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 15, 2010 are incorporated by reference into Part III of this Report

UNITIL CORPORATION
FORM 10-K
For the Fiscal Year Ended December 31, 2009
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PART I

Item 1. Business

UNITIL CORPORATION

Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil was incorporated under the laws of the State of New Hampshire in 1984. The following companies are wholly owned subsidiaries of Unitil:

Company Name	State and Year of Organization	Principal Business
Unitil Energy Systems, Inc. (Unitil Energy)	NH - 1901	Electric Distribution Utility
Fitchburg Gas and Electric Light Company (Fitchburg)	MA - 1852	Electric & Gas Distribution Utility
Northern Utilities, Inc. (Northern Utilities)	NH - 1979	Natural Gas Distribution Utility
Granite State Gas Transmission, Inc. (Granite State)	NH - 1955	Natural Gas Transmission Pipeline
Unitil Power Corp. (Unitil Power)	NH - 1984	Wholesale Electric Power Utility
Unitil Service Corp. (Unitil Service)	NH - 1984	Utility Service Company
Unitil Realty Corp. (Unitil Realty)	NH - 1986	Real Estate Management
Unitil Resources, Inc. (Unitil Resources)	NH - 1993	Non-regulated Energy Services
Usource Inc. and Usource L.L.C. (Usource)	DE - 2000	Energy Brokering and Advisory Services

Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005.

Unitil's principal business is the local distribution of electricity and natural gas throughout its service territories in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three wholly owned distribution utilities: i) Unitil Energy, which provides electric service in the southeastern seacoast and state capital regions of New Hampshire, including the city of Concord, New Hampshire, ii) Fitchburg, which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts, and iii) Northern Utilities, which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine, including the city of Portland and the Lewiston-Auburn area. In addition, Unitil is the parent company of Granite State, an interstate natural gas transmission pipeline company that provides interstate natural gas pipeline access and transportation services to Northern Utilities in its New Hampshire and Maine service territory. Together, Unitil's three distribution utilities serve approximately 100,500 electric customers and 70,000 natural gas customers.

Unitil's distribution utilities are local "pipes and wires" operating companies and, combined with Granite State, had an investment in net utility plant of $449.7 million at December 31, 2009. Unitil's total operating revenue was $367.0 million in 2009. Substantially all of Unitil's operating revenue is derived from regulated utility operations.

A fifth utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for Unitil Energy. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of Unitil Energy on May 1, 2003 and divested of substantially all of its long-term power supply contracts through the sale of the entitlements to the electricity associated with those contracts.

Unitil also has three other wholly owned subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and energy supply management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company's corporate office in Hampton, New Hampshire. Unitil Resources is the Company's wholly owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are indirect subsidiaries that are wholly owned by Unitil Resources. Usource provides energy brokering and advisory services to large commercial and industrial customers in the northeastern United States.

OPERATIONS

Gas Operations

Unitil's Gas Operations include gas distribution utility operations and gas transportation pipeline company operations, discussed below. Revenue from Unitil's gas operations was $152.8 million for 2009, which represent about 42% of Unitil's total operating revenue. In 2008, the Company significantly expanded its gas operations by acquiring Northern Utilities and Granite State on December 1, 2008.

On December 1, 2008, the Company purchased: (i) all of the outstanding capital stock of Northern Utilities, a natural gas distribution utility serving customers in Maine and New Hampshire, originally founded as Portland Gas Light Company in 1849, from Bay State Gas Company (Bay State) and (ii) all of the outstanding capital stock of Granite State, an interstate natural gas transmission pipeline company primarily serving the needs of Northern Utilities, from NiSource Inc. (NiSource) pursuant to the Stock Purchase Agreement dated as of February 15, 2008 by and among NiSource, Bay State, and Unitil (the Acquisitions). Bay State is a wholly owned subsidiary of NiSource. The aggregate purchase price for the Acquisitions was $160 million in cash, plus an additional working capital adjustment of $49.2 million, including approximately $30.0 million of natural gas storage inventory. To finance the Acquisitions and recapitalize Northern Utilities and Granite State, the Company issued additional equity and debt (see "Liquidity, Commitments and Capital Requirements" section in Part II, Item 7 below). The regulatory process in both New Hampshire and Maine, in connection with those states' approvals of the Acquisitions, included the negotiation and filing of settlement agreements reflecting commitments by Unitil with respect to Northern Utilities' rates, customer service and operations. The settlement agreements were separately negotiated and filed in each state but reflect a number of common features (See Note 6 to the accompanying Consolidated Financial Statements for additional information on these settlement agreements).

Gas Distribution Utility Operations

Unitil's natural gas utility operations are conducted through two of the Company's distribution utilities, Northern Utilities and Fitchburg. The primary business of Unitil's natural gas utility operations is the local distribution of natural gas to customers in its service territory in New Hampshire, Massachusetts and Maine. As a result of a restructuring of the gas utility industry in New Hampshire, Massachusetts and Maine, Fitchburg's residential and commercial and industrial (C&I) customers and Northern Utilities' C&I customers have the opportunity to purchase their natural gas supplies from third-party energy supply vendors. Most customers, however, continue to purchase such supplies through Northern Utilities and Fitchburg under regulated rates and tariffs. Northern Utilities and Fitchburg purchase natural gas from unaffiliated wholesale suppliers and recover the actual costs of these supplies on a pass-through basis through reconciling rate mechanisms that are periodically adjusted.

Natural gas is supplied and distributed by Northern Utilities to approximately 54,800 customers in 44 New Hampshire and southern Maine communities, from Plaistow, New Hampshire in the south to the city of Portland, Maine and then extending to Lewiston-Auburn, Maine in the north. Northern Utilities has a diversified customer base both in Maine and New Hampshire. Commercial businesses include healthcare, education, government and retail. Northern Utilities' industrial base includes manufacturers in the industries of auto, housing, rubber, printing, textile, pharmaceutical, electronics, wires and food production as well as a military installation. Northern Utilities 2009 gas operating revenue was $113.9 million, of which approximately 37.0% was derived from residential firm sales and 63.0% from C&I firm sales.

Natural gas is supplied and distributed by Fitchburg to approximately 15,200 customers in the communities of Fitchburg, Lunenburg, Townsend, Ashby, Gardner and Westminster, all located in Massachusetts. Fitchburg's industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries. Fitchburg's 2009 gas operating revenue was $34.8 million, of which approximately 54.0% was derived from residential firm sales and 46.0% from commercial/industrial firm sales.

Gas Transmission Pipeline Company Operations

Granite State is an interstate natural gas transmission pipeline company, operating 87 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north. Granite State had operating revenue of $4.1 million for 2009. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and, to a lesser extent, third-party marketers.

Electric Distribution Utility Operations

Unitil's electric utility operations are conducted through two of the Company's distribution utilities, Unitil Energy and Fitchburg. Revenue from Unitil's electric utility operations was $209.9 million for 2009, which represent about 57% of Unitil's total operating revenue.

The primary business of Unitil's electric utility operations is the local distribution of electricity to customers in its service territory in New Hampshire and Massachusetts. As a result of the implementation of choice in New Hampshire and Massachusetts, Unitil's customers are free to contract for their supply of electricity with third-party suppliers. The distribution utilities continue to deliver that supply of electricity over their distribution systems. Both Unitil Energy and Fitchburg supply electricity to those customers who do not obtain their supply from third-party suppliers, with the approved costs associated with electricity supplied by the distribution utilities being recovered on a pass-through basis under periodically-adjusted rates.

Unitil Energy distributes electricity to approximately 72,600 customers in New Hampshire in the capital city of Concord as well as parts of 12 surrounding towns and all or part of 18 towns in the southeastern and seacoast regions of New Hampshire, including the towns of Hampton, Exeter, Atkinson and Plaistow. Unitil Energy's service territory consists of approximately 408 square miles. In addition, Unitil Energy's service territory encompasses retail trading and recreation centers for the central and southeastern parts and includes the Hampton Beach recreational area. These areas serve diversified commercial and industrial businesses, including manufacturing firms engaged in the production of electronic components, wires and plastics, healthcare and education. Unitil Energy's 2009 electric operating revenue was $146.4 million, of which approximately 51.0% was derived from residential sales and 49.0% from commercial/industrial sales.

Fitchburg is engaged in the distribution of both electricity and natural gas in the greater Fitchburg area of northcentral Massachusetts. Fitchburg's service territory encompasses approximately 170 square miles. Electricity is supplied and distributed by Fitchburg to approximately 27,900 customers in the communities of Fitchburg, Ashby, Townsend and Lunenburg. Fitchburg's industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries and education. Fitchburg's 2009 electric operating revenue was $63.5 million, of which approximately 54.0% was derived from residential sales and 46.0% from commercial/industrial sales.

Seasonality

As a result of the acquisitions of Northern Utilities and Granite State, consolidated results for the Company in the current period may not be directly comparable to prior period results until such time as the acquisitions are fully reflected in both reporting periods. In particular, the Company's results will reflect the seasonal nature of the natural gas distribution business. Accordingly, the Company expects that results of operations will be positively affected during the first and fourth quarters, when sales of natural gas are typically higher, and negatively affected during the second and third quarters, when gas operating and maintenance expenses usually exceed sales margins in the period.

Electric sales in New England are far less seasonal than natural gas sales; however, the highest usage typically occurs in both the summer months due to air conditioning demand and the winter months due to heating-related requirements and shorter daylight hours. Unitil Energy, Fitchburg and Northern Utilities are not dependent on a single customer or a few customers for their electric and natural gas sales.

Non-regulated and Other Non-Utility Operations

Unitil's non-regulated operations are conducted through Usource, a subsidiary of Unitil Resources. Usource provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Revenue from Unitil's non-regulated operations was $4.3 million in 2009.

The results of Unitil's other non-utility subsidiaries, Unitil Service and Unitil Realty, and the holding company are included in the Company's consolidated results of operations. The results of these non-utility operations are principally derived from income earned on short-term investments and real property owned for Unitil's and its subsidiaries' use and are reported, after intercompany eliminations, in Other segment income (for segment information, see Part II, Item 8, Note 10 herein).

(For details on Unitil's Results of Operations, see Part II, Item 7 herein.)

RATES AND REGULATION

Unitil is subject to comprehensive regulation by federal and state regulatory authorities. Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 with regard to certain bookkeeping, accounting and reporting requirements. Unitil's utility operations related to wholesale and interstate energy business activities are also regulated by FERC. Unitil's distribution utilities are subject to regulation by the applicable state public utility commissions, with regard to their rates, issuance of securities and other accounting and operational matters: Unitil Energy is subject to regulation by the New Hampshire Public Utilities Commission (NHPUC); Fitchburg is subject to regulation by the Massachusetts Department of Public Utilities (MDPU); and Northern Utilities is regulated by the NHPUC and Maine Public Utilities Commission (MPUC). Granite State, Unitil's interstate natural gas transmission pipeline, is subject to regulation by the FERC with regard to their rates and operations. Because Unitil's primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company's operations and financial position.

Unitil's distribution utilities deliver electricity and/or natural gas to all customers in their service territory, at rates established under traditional cost of service regulation. Under this regulatory structure, Unitil's distribution utilities recover the cost of providing distribution service to their customers based on a historical test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in New Hampshire, Massachusetts and Maine, Unitil's customers have the opportunity to purchase their electricity or natural gas supplies from third party energy supply vendors. Most customers, however, continue to purchase such supplies through the distribution utilities under regulated energy rates and tariffs. Unitil's distribution utilities purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual approved costs of these supplies on a pass-through basis, as well as certain costs associated with industry restructuring, through reconciling rate mechanisms that are periodically adjusted.

On December 11 and 12, 2008, a severe ice storm struck the New England region (December 2008 Ice Storm), causing extensive damage to electric facilities and loss of service to significant numbers of customers of several utilities. An estimated one million electric customers in the region were affected, including all of Unitil's 28,000 Massachusetts customers, and approximately half of its New Hampshire customers.

The Company has received regulatory approval to defer storm restoration costs and has accrued and deferred approximately $14.6 million of costs, including carrying charges, incurred for the repair of its electric system damaged during the ice storm so that it may seek recovery of these costs in its next base rate cases. The Company does not believe these storm restoration expenditures and the timing of cost recovery will have a material adverse impact on the Company's financial condition or results of operations. However, if it were ultimately determined that certain of these costs were not recoverable in rates, there may be a significant impact on the Company's results of operations in future periods.

Also see Part II, Item 7 below for Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters and Note 6 to the accompanying Consolidated Financial Statements for additional information on Rates and Regulation.

NATURAL GAS SUPPLY

With the purchase of Northern Utilities on December 1, 2008, Unitil now manages gas supply for customers served by Northern Utilities in Maine and New Hampshire as well as customers served by Fitchburg in Massachusetts.

Fitchburg's residential and C&I customers have the opportunity to purchase their natural gas supply from third-party gas supply vendors, although most of Fitchburg's customers continue to purchase such supplies at regulated rates from Fitchburg. Northern Utilities' C&I natural gas customers have the opportunity to purchase their natural gas supply from third-party gas supply vendors, and third-party supply is prevalent among Northern Utilities' larger C&I customers. Most small C&I customers, as well as all residential customers, purchase their gas supply at regulated rates from Northern Utilities under regulated rates and tariffs. The approved costs associated with the acquisition of such wholesale natural gas supplies for customers who do not contract with third-party suppliers are recovered on a pass-through basis through periodically-adjusted rates and are included in Purchased Gas in the Consolidated Statements of Earnings.

In the fourth quarter of 2009, the MDPU issued an order finding that Fitchburg engaged in certain price stabilization practices for the 2007 / 2008 and 2008 / 2009 heating seasons without the MDPU's prior approval and that Fitchburg's gas purchasing practices were imprudent. As a result, the MDPU required Fitchburg to refund $4.6 million of natural gas costs, plus carrying charges, to its gas customers. Fitchburg recorded a pre-tax charge of $4.9 million in the fourth quarter of 2009 based on the MDPU's order. Fitchburg has appealed this order to the Massachusetts Supreme Judicial Court. Fitchburg's assessment is that pre-approval from the MDPU for gas purchases made to stabilize prices for customers was not required and that its gas-procurement practices were consistent with those of other Massachusetts natural gas distribution companies and all relevant MDPU rules and orders and Massachusetts law. In addition, Fitchburg is able to demonstrate that its gas purchasing practices were previously disclosed to the MDPU at public hearings and in required filings with the MDPU and the Massachusetts Office of the Attorney General. This appeal remains pending before the Massachusetts Supreme Judicial Court. Immediately after the MDPU opened its investigation of this matter in March 2009, Fitchburg ceased making the gas procurement purchases in question and filed a request with the MDPU for approval of a gas procurement plan for future gas purchases. This matter remains pending before the MDPU.

Regulated Natural Gas Supply

Fitchburg purchases natural gas under contracts of one year or less, as well as from producers and marketers on the spot market. Fitchburg arranges for gas delivery to its system through its own long-term contracts with Tennessee Gas Pipeline, or in the case of liquefied natural gas (LNG) or liquefied propane gas (LPG), to truck supplies to each storage facility within Fitchburg's service territory.

Fitchburg has available under firm contract 14,057 MMbtu per day of year-round and seasonal transportation and underground storage capacity to its distribution facilities. As a supplement to pipeline natural gas, Fitchburg owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

Northern purchases a majority of its natural gas from U.S. domestic and Canadian suppliers under contracts of one year or less, and on occasion from producers and marketers on the spot market. Northern arranges for gas delivery to its system through its own long-term contracts with various interstate pipeline and storage facilities, through peaking supply contracts delivered to its system, or in the case of LNG or LPG, to truck supplies to each storage facility within Northern Utilities' service territory.

Northern has available under firm contract 100,000 MMbtu per day of year-round and seasonal transportation capacity to its distribution facilities, and 3.4 Bcf of underground storage. As a supplement to pipeline natural gas, Northern owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

ELECTRIC POWER SUPPLY

The restructuring of the utility industry in New Hampshire required the divestiture of Unitil's power supply arrangements and the procurement of replacement supplies, which provided the flexibility for migration of customers to and from utility energy service. Fitchburg, Unitil Energy, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the ISO New England, Inc. (ISO-NE) markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve Unitil's customers.

As a result of restructuring of the electric utility industry in Massachusetts and New Hampshire, Unitil's customers in both New Hampshire and Massachusetts have the opportunity to purchase their electric supply from competitive third party energy suppliers. As of December 2009, 99 or 67% of Unitil's largest New Hampshire customers, representing 24% of total New Hampshire electric energy sales, and 26 or 79% of Unitil's largest Massachusetts customers, representing 35% of total Massachusetts electric energy sales, are purchasing their electric power supply in the competitive market. However, most residential and small commercial customers continue to purchase their electric supply through Unitil's distribution utilities under regulated energy rates and tariffs. The concentration of the competitive retail market on higher use customers has been a common experience throughout the New England electricity market.

Regulated Electric Power Supply

In order to provide regulated electric supply service to their customers, Unitil's distribution utilities enter into load-following wholesale electric power supply contracts with various wholesale suppliers.

Fitchburg has power supply contracts with various wholesale suppliers for the provision of Basic Service energy supply. MDPU policy dictates the pricing structure and duration of each of these contracts. Currently, all Basic Service power supply contracts for large general accounts are three months in duration and provide 100% of supply requirements. Basic Service power supply contracts for residential and small and medium general service customers are acquired every six months, are 12 months in duration and provide 50% of the supply requirements.

Unitil Energy currently has power supply contracts with various wholesale suppliers for the provision of Default Service to its customers. Unitil Energy procures Default Service supply for its large general service accounts through competitive solicitations for power contracts of three months in duration for 100% of supply requirements. Unitil Energy procures Default Service supply for its other customers through a series of two one-year contracts and two three-year contracts, each providing 25% of the total supply requirements of the group.

The NHPUC and MDPU regularly investigate alternatives to their procurement policy, which may lead to future changes in this regulated power supply procurement structure.

Regional Electric Transmission and Power Markets

Fitchburg, Unitil Energy and Unitil Power, as well as virtually all New England electric utilities, are participants in the ISO-NE markets. ISO-NE is the Regional Transmission Organization (RTO) in New England. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economic manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. The ISO-NE tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated power system operation in a reliable manner and a supportive business environment for the development of competitive electric markets.

Electric Power Supply Divestiture

Prior to May 1, 2003, Unitil Energy purchased all of its power supply from Unitil Power under the Unitil System Agreement, a FERC-regulated tariff, which provided for the recovery of all of Unitil Power's power supply-related costs on a cost pass-through basis. Effective May 1, 2003, Unitil Energy and Unitil Power amended the Unitil System Agreement, such that power sales from Unitil Power to Unitil Energy ceased, and Unitil Power sold substantially all of its entitlements under the remaining portfolio of power supply contracts. Under the amended Unitil System Agreement, Unitil Energy continues to pay contract release payments to Unitil Power for stranded costs associated with the portfolio sale and its other ongoing power supply-related costs. In connection with the restructuring of the electric industry, Unitil Power and Fitchburg divested substantially all of their long-term power supply contracts and interests in generation assets through the sale of the interest in those assets or the sale of the entitlements to the electricity provided by those generation assets and long-term power supply contracts.

Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. Unitil's distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

ENVIRONMENTAL MATTERS

Unitil's past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. The Company believes it is in compliance with applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2009, there were no material losses reasonably likely to be incurred in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Fitchburg's Manufactured Gas Plant Site—Fitchburg continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. Fitchburg has proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection, which allows Fitchburg to work towards temporary closure of the site. A status of temporary closure requires Fitchburg to monitor the site until a feasible permanent remediation alternative can be developed and completed. Also, see Note 6 to the accompanying consolidated financial statements.

Fitchburg recovers the environmental response costs incurred at this former MGP site not recovered by insurance or other means in gas rates pursuant to terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, Fitchburg is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs. In addition, Fitchburg has filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. Any recovery that Fitchburg receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between Fitchburg and its gas customers.

Northern Utilities' Manufactured Gas Plant Sites—Northern Utilities has an extensive program to identify, investigate and remediate former MGP sites that were operated from the mid 1800's through the mid 1900's. In New Hampshire, MGP sites were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. This program has also documented the presence of MGP sites in Lewiston and Portland, Maine and a former MGP disposal site in Scarborough, Maine. Northern Utilities has worked with the environmental regulatory agencies in both New Hampshire and Maine to address environmental concerns with these sites.

The NHPUC and MPUC have approved the recovery of MGP environmental costs. For Northern Utilities' New Hampshire division, the NHPUC approved the recovery of MGP environmental costs over a seven-year amortization period. Northern Utilities believes material future costs will be recovered. For Northern Utilities' Maine division, the MPUC authorized the recovery of environmental remediation costs over a rolling five-year amortization schedule.

Also, see Part II, Item 7 below for Management's Discussion and Analysis of Financial Condition and Results of Operations—Environmental Matters and Note 6 to the accompanying Consolidated Financial Statements for additional information on Environmental Matters.

EMPLOYEES

As of December 31, 2009, the Company and its subsidiaries had 431 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

As of December 31, 2009, 156 of the Company's employees were represented by labor unions. These employees are covered by collective bargaining agreements. Two agreements expire on May 31, 2010, one agreement expires on June 5, 2010 and one agreement expires on March 31, 2012. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. The Company expects to successfully negotiate new agreements prior to their expiration dates.

AVAILABLE INFORMATION

The Company's Internet address is *www.unitil.com*. There, the Company makes available, free of charge, its SEC fillings, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports, as well as amendments to those reports. These reports are made available through the Investors section of Unitil's website via a direct link to the section of the SEC's website which contains Unitil's SEC filings.

The Company's current Code of Ethics was approved by Unitil's Board of Directors on January 15, 2004. This Code of Ethics, along with any amendments or waivers, is also available on Unitil's website.

Unitil's common stock is listed on the New York Stock Exchange under the ticker symbol "UTL."

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table provides information about our directors and senior management as of February 10, 2010:

Name	Age	Position
Robert G. Schoenberger	59	Chairman of the Board, Chief Executive Officer and President
Mark H. Collin	50	Senior Vice President, Chief Financial Officer and Treasurer
Thomas P. Meissner, Jr.	47	Senior Vice President and Chief Operating Officer
Laurence M. Brock	56	Controller and Chief Accounting Officer
Todd R. Black	45	Senior Vice President, External Affairs and Customer Relations, Unitil Service
George R. Gantz	58	Senior Vice President, Distributed Energy Resources, Unitil Service
George E. Long, Jr.	53	Vice President, Administration, Unitil Service
Sandra L. Whitney	46	Corporate Secretary
William D. Adams	62	Director
Dr. Robert V. Antonucci	64	Director
David P. Brownell	66	Director
Michael J. Dalton	69	Director
Albert H. Elfner, III	65	Director
Edward F. Godfrey	60	Director
Michael B. Green	60	Director
Eben S. Moulton	63	Director
M. Brian O'Shaughnessy	66	Director
Dr. Sarah P. Voll	67	Director

Robert G. Schoenberger has been Unitil's Chairman of the Board of Directors and Chief Executive Officer since 1997, as well as President since 2003. Prior to his employment with Unitil, Mr. Schoenberger was president and chief operating officer of the New York Power Authority (a state-owned utility) from 1993 until 1997. Mr. Schoenberger has also served as a director of SatCon Technology Corporation, Boston, Massachusetts (a company engaged in the development and manufacture of power electronics and control systems) since 2007. Mr. Schoenberger formerly served as chairman and trustee of Exeter Health Resources, Exeter, New Hampshire, from 1998 until 2009, and as a director of the Greater Seacoast (New Hampshire) United Way from 1998 until 2004, the New England Gas Association from 1999 until 2002 and the Southwest Power Pool from 2003 until 2005.

Mark H. Collin has been Unitil's Senior Vice President and Chief Financial Officer since February 2003. Mr. Collin has also served as Treasurer since 1998. Mr. Collin joined Unitil in 1988, and served as Vice President of Finance from 1995 until 2003.

Thomas P. Meissner, Jr. has been Unitil's Senior Vice President and Chief Operating Officer since June 2005. Mr. Meissner served as Senior Vice President, Operations, from February 2003 until June 2005. Mr. Meissner joined Unitil in 1994 and served as Director of Engineering from 1998 until 2003.

George R. Gantz has been Unitil's Senior Vice President, Distributed Energy Resources, Unitil Service, since September 2009. Mr. Gantz joined Unitil in 1983 and served as Senior Vice President, Communication and Regulation from 1994 until 2003, and Senior Vice President, Customer Services and Communications from 2003 until 2009.

Todd R. Black has been Unitil's Senior Vice President, External Affairs and Customer Relations, Unitil Service, since September 2009. Mr. Black joined Unitil in 1998 and served as Vice President, Sales and Marketing, for Usource from 1998 until 2003, and President of Usource from 2003 until 2009.

Laurence M. Brock has been Unitil's Controller and Chief Accounting Officer since June 2005. Mr. Brock joined Unitil in 1995 as Vice President and Controller, and is a certified public accountant in the state of New Hampshire.

George E. Long, Jr. has been Unitil's Vice President, Administration, Unitil Service, since February 2003. Mr. Long joined Unitil in 1994 and was Director, Human Resources, from 1998 until 2003.

Sandra L. Whitney has been Unitil's Corporate Secretary and secretary of our Board of Directors since February 2003. Ms. Whitney joined Unitil in 1990 and also serves as the Corporate Secretary of Unitil's subsidiary companies.

William D. Adams has been a member of Unitil's Board of Directors since 2009. Mr. Adams has been the president of Colby College in Waterville, Maine, since 2000. Mr. Adams also serves on the board of trustees of Colby College. Mr. Adams also served as president of Bucknell University (Bucknell) in Pennsylvania from 1995 until 2000. Prior to leading Bucknell, he served as vice president and secretary of Wesleyan University in Connecticut. Mr. Adams also served as coordinator of the Great Works in Western Culture program at Stanford University and taught political philosophy at the University of North Carolina at Chapel Hill and Santa Clara University. Mr. Adams has served on the board of directors of Wittenburg University since 2007, Maine General Health since 2002, and Maine Public Broadcasting Corporation since 2002.

Dr. Robert V. Antonucci has been a member of Unitil's Board of Directors since 2004. Dr. Antonucci has been the president of Fitchburg State College (FSC) in Fitchburg, Massachusetts, since 2003. Prior to his employment with FSC, Dr. Antonucci was president of the School Group of Riverdeep, Inc., San Francisco, California, from 2001 until 2003 and president and chief executive officer of Harcourt Learning Direct and Harcourt Online College, Chestnut Hill, Massachusetts from 1998 until 2001. Dr. Antonucci also served as the commissioner of education for the Commonwealth of Massachusetts from 1992 until 1998. In addition, Dr. Antonucci has served as a trustee of Eastern Bank since 1988. Dr. Antonucci also serves and a director of the North Central Massachusetts Chamber of Commerce and a director of the North Central Massachusetts United Way.

David P. Brownell has been a member of Unitil's Board of Directors since 2001. Mr. Brownell has been a retired senior vice president of Tyco International Ltd. (Tyco) (a diversified global manufacturing and service company), Portsmouth, New Hampshire, since 2003. Mr. Brownell had been with Tyco since 1984. Mr. Brownell was also interim president of the University of New Hampshire (UNH) Foundation, former vice chairman of the board of UNH Foundation, former volunteer board president of the United Way of the Greater Seacoast, and a former board member of the New Hampshire Junior Achievement Advisory Council.

Michael J. Dalton has been a member of Unitil's Board of Directors since 1984. Mr. Dalton has been the retired president and chief operating officer of Unitil since 2003. Mr. Dalton has been a member of the Industrial Advisory Council of the University of New Hampshire College of Engineering and Physical Sciences since 2003, and vice president since 2009. Mr. Dalton was a director of the New England Gas Association from 2002 until 2003, the Electric Council of New England, the UNH Foundation, the University of New Hampshire Alumni Association, and the University of New Hampshire President's Council. In addition, Mr. Dalton serves as a mentor with the University of New Hampshire Pathways Mentorship Program.

Albert H. Elfner, III has been a member of Unitil's Board of Directors since 1999. Mr. Elfner was the chairman of Evergreen Investment Management Company, Boston, Massachusetts, from 1994 until 1999 and its chief executive officer from 1995 until 1999. Mr. Elfner is also a director of NGM Insurance Company (NGM), Jacksonville, Florida, as well as a member of the NGM finance committee, and as a director of Emerson Ecologics, LLC (distributor of natural health care products to health care professionals), and as a trustee of MDT Advisors (a quantitative investment management firm), Boston, Massachusetts.

Edward F. Godfrey has been a member of Unitil's Board of Directors since 2002. Mr. Godfrey was the executive vice president and chief operating officer of Keystone Investments, Incorporated (Keystone), Boston, Massachusetts, from 1997 until 1998. Mr. Godfrey was senior vice president, chief financial officer and treasurer of Keystone from 1988 until 1996. Mr. Godfrey is also a director of VehiCare, LLC, Charlotte, North Carolina, since 2006.

Michael B. Green has been a member of Unitil's Board of Directors since 2001. Mr. Green has been the president and chief executive officer of Capital Region Health Care and Concord Hospital, Concord, New Hampshire, since 1992. Mr. Green is also a member of the adjunct faculty, Dartmouth Medical School, Dartmouth College, Hanover, New Hampshire. In addition, Mr. Green currently serves on the board of the Foundation for Healthy Communities, is a director of the New Hampshire Hospital Association, a director of New Hampshire Business Council for the Arts, and a director of Merrimack County Savings Bank including membership on the bank's investment and audit committees.

Eben S. Moulton has been a member of Unitil's Board of Directors since 2000. Mr. Moulton has been the managing partner of Seacoast Capital Corporation, Danvers, Massachusetts, (a private investment company) since 1995. Mr. Moulton is also a director of IEC Electronics (provider of electronic manufacturing services to advanced technology companies), Newark, New York, a director of six private companies, and a trustee of Colorado College, Colorado Springs, Colorado.

M. Brian O'Shaughnessy has been a member of Unitil's Board of Directors since 1998. Mr. O'Shaughnessy has been the chairman of the board of Revere Copper Products, Inc. (Revere), Rome, New York, since 1988. Mr. O'Shaughnessy also served as chief executive officer and president of Revere from 1988 until 2007. Mr. O'Shaughnessy also serves on the Board of Directors and as the chief co-chair of the Coalition for a Prosperous America, three copper industry trade associations, three manufacturing associations in New York State regarding energy-related issues, and the Economic Development Growth Enterprise of Mohawk Valley.

Dr. Sarah P. Voll has been a member of Unitil's Board of Directors since 2003. Dr. Voll has been a retired vice president, National Economic Research Associates, Inc. (NERA), Washington, District of Columbia, a firm of consulting economists specializing in industrial and financial economics, since 2007, but currently serves as a special consultant to NERA. Dr. Voll had been with NERA in the position of vice president since 1999, and in the position of senior consultant from 1996 until 1999. Prior to her employment with NERA, Dr. Voll was a staff member at the NHPUC from 1980 until 1996.

INVESTOR INFORMATION

Annual Meeting

The annual meeting of shareholders is scheduled to be held at the offices of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Thursday, April 15, 2010, at 10:30 a.m.

Transfer Agent

The Company's transfer agent, Computershare, is responsible for shareholder records, issuance of common stock, administration of the Dividend Reinvestment and Stock Purchase Plan, and the distribution of Unitil's dividends and IRS Form 1099-DIV. Shareholders may contact Computershare at:

Computershare
P.O. Box 43078
Providence, RI 02940-3078
Telephone: 800-736-3001
www.computershare.com

Investor Relations

For information about the Company, you may call the Company directly, toll-free, at: 800-999-6501 and ask for the Investor Relations Representative; visit the Investor page at *www.unitil.com*; or contact the transfer agent, Computershare, at the number listed above.

Special Services & Shareholder Programs Available to Holders of Record

If a shareholder's shares of common stock are registered directly in the shareholder's name with the Company's transfer agent, the shareholder is considered a holder of record of the shares. The following services and programs are available to shareholders of record:

- Internet Account Access is available at *www.computershare.com*.
- Dividend Reinvestment and Stock Purchase Plan:

  To enroll, please contact the Company's Investor Relations Representative or Computershare.
- Dividend Direct Deposit Service:

  To enroll, please contact the Company's Investor Relations Representative or Computershare.
- Direct Registration:

  For information, please contact Computershare at 800-935-9330 or the Company's Investor Relations Representative at 800-999-6501.

Item 1A. Risk Factors

Risks Relating to Our Business

Risks related to the regulation of the Company's business could impact the rates it is able to charge, its costs and its profitability.

The Company is subject to comprehensive regulation by federal and state regulatory authorities, which significantly influences the Company's operating environment and its ability to recover costs from its customers. In particular, the Company is regulated by the FERC and state regulatory authorities with jurisdiction over public utilities, including the NHPUC, MDPU and MPUC. These authorities regulate many aspects of the Company's operations, including, but not limited to, construction and maintenance of facilities, operations, safety, issuance of securities, accounting matters, transactions between affiliates, the rates that the Company can charge customers and the rate of return that it is allowed to realize. The Company's ability to obtain rate adjustments to maintain its current rate of return depends upon regulatory action under applicable statutes, rules and regulations, and the Company cannot assure you that it will be able to obtain rate adjustments or continue receiving its current authorized rates of return. These regulatory authorities are also empowered to impose financial penalties and other sanctions on the Company if it is found to have violated statutes and regulations governing its utility operations. The Company is unable to predict the impact on its operating results from the regulatory activities of any of these agencies. Although the Company has attempted to actively manage the rate making process and has had recent success in obtaining rate adjustments, it can offer no assurances as to future success in the rate making process. Despite the Company's requests, these regulatory commissions have authority under applicable statutes, rules and regulations to leave the Company's rates unchanged, grant increases or order decreases in such rates.

The regulators also have authority with respect to the recovery of the Company's electricity and natural gas supply costs incurred by Unitil Energy, Fitchburg, and Northern Utilities. In the event that the Company is unable to recover a significant amount of these costs or recovery of these costs were to be significantly delayed, the Company's operating results could be materially adversely affected. Changes in regulations or the imposition of additional regulations could also have an adverse effect on the Company's operating results.

In the fourth quarter of 2009, the MDPU issued an order finding that Fitchburg engaged in certain price stabilization practices for the 2007 / 2008 and 2008 / 2009 heating seasons without the MDPU's prior approval and that Fitchburg's gas purchasing practices were imprudent. As a result, the MDPU required Fitchburg to refund $4.6 million of natural gas costs, plus carrying charges, to its gas customers. Fitchburg recorded a pre-tax charge of $4.9 million in the fourth quarter of 2009 based on the MDPU's order. Fitchburg has appealed the gas procurement Order to the Massachusetts Supreme Judicial Court. Fitchburg's assessment is that pre-approval from the MDPU for gas purchases made to stabilize prices for customers was not required and that its gas-procurement practices were consistent with those of other Massachusetts natural gas distribution companies and all relevant MDPU rules and orders and Massachusetts law. In addition, Fitchburg is able to demonstrate that its gas purchasing practices were previously disclosed to the MDPU at public hearings and in required filings with the MDPU and the Massachusetts Office of the Attorney General. This appeal remains pending before the Massachusetts Supreme Judicial Court. Immediately after the MDPU opened its investigation of this matter in March 2009, Fitchburg ceased making the gas procurement purchases in question and filed a request with the MDPU for approval of a gas procurement plan for future gas purchases. This matter remains pending before the MDPU.

The Company has deferred certain costs associated with the December 2008 Ice Storm for future recovery in rates.

On December 11 and 12, 2008, a severe ice storm struck the New England region, causing extensive damage to electric facilities and loss of service to significant numbers of customers of several utilities. An estimated one million electric customers in the region were affected, including all of Unitil's 28,000 Massachusetts customers, and approximately half of its New Hampshire customers.

The Company has received regulatory approvals to defer storm restoration costs and has accrued and deferred approximately $14.6 million of costs, including carrying charges, for the repair of its electric system damaged during the December 2008 Ice Storm so that it may seek recovery of these costs in its next base rate cases. The Company does not believe these storm restoration expenditures and the timing of cost recovery will have a material adverse impact on the Company's financial condition or results of operations. However, if it were ultimately determined that certain of these costs were not recoverable in rates, there may be a significant impact on the Company's results of operations in future periods.

As a result of electric industry restructuring, the Company has a significant amount of certain stranded electric generation and generation related supply costs.

The stranded costs resulting from the implementation of electric industry restructuring mandated by the states of New Hampshire and Massachusetts are recovered by the Company on a pass-through basis through periodically reconciled rates. Any unrecovered balance of purchased power or stranded costs is deferred for future recovery as a regulatory asset. Such regulatory assets are subject to periodic regulatory review and approval for recovery in future periods.

The Company's power supply-related regulatory assets due to the electric industry restructuring in New Hampshire and Massachusetts for which regulatory approval has been obtained for recovery were approximately $25.6 million for Fitchburg and $9.1 million for Unitil Energy as of December 31, 2009, including $8.4 million and $4.6 million for Fitchburg and Unitil Energy, respectively, recorded in Current Assets as Accrued Revenue on the Company's Consolidated Balance Sheet. Additionally, the Company's other restructuring-related regulatory assets for which regulatory approval has been obtained for recovery were approximately $28.3 million in the aggregate as of December 31, 2009, including $4.7 million recorded in Current Assets as Accrued Revenue on the Company's Consolidated Balance Sheet.

Substantially all of Fitchburg's stranded costs relate to owned generation assets and purchase power agreements divested by Fitchburg under a long-term contract buy-out agreement. Unitil Energy's stranded costs are attributable to the long-term power purchase agreements divested by Unitil Power under long-term contract buyout agreements. Because Fitchburg and Unitil Power remain ultimately responsible for purchase power payments underlying these long-term buyout agreements, Fitchburg and Unitil Power could incur additional stranded costs were they required to resell such divested entitlements prior to the end of their term for amounts less than the amounts agreed to under the existing long-term buyout agreements. The Company expects that any such additional stranded costs would be recovered from its customers, although such recovery would require approval from the MDPU or NHPUC, the receipt of which cannot be assured.

The Company's electric and natural gas sales and revenues are highly correlated with the economy, and national, regional and local economic conditions may negatively impact the Company's customers and correspondingly its operating results and financial condition.

The Company's business is influenced by the economic activity within its service territory. The level of economic growth in the Company's electric and natural gas distribution service territory directly affects the potential for future growth in the Company's business. As a result, adverse changes in the economy may have negative effects on the Company's revenues, operating results and financial condition.

The Company may not be able to obtain financing or obtain financing on acceptable terms, which could have an adverse affect on the Company's operating results and financial condition.

The Company requires capital to fund utility plant additions, working capital and other utility expenditures. While the capital necessary to meet these requirements is derived primarily from internally-generated funds, the Company initially supplements internally generated funds through short-term debt under its current credit facility, as needed, and periodically replaces portions of its short-term debt with permanent financing sources such as long-term debt or equity. General economic conditions and the Company's operating and financial performance could negatively affect the Company's ability to obtain financing and the terms of such financing. In addition, the Company may be unable to obtain debt financing under its current credit facility because its lending counterparties may be unwilling or unable to meet their funding obligations. In each case, this could hinder or prevent the Company from meeting its current and future capital needs, which could correspondingly have an adverse affect on the Company's operating results and financial condition. In addition, the material terms of the Company's existing indebtedness restricts its ability to incur any material amount of additional indebtedness, which could negatively impact its operating results and financial condition. See Part II, Item 7 below for Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity, Commitments and Capital Requirements section and Note 4 to the accompanying Consolidated Financial Statements.

Declines in the valuation of capital markets could require the Company to make substantial cash contributions to cover its pension obligations, which could negatively impact its financial condition.

On August 17, 2006, the Pension Protection Act of 2006 (the PPA) was signed into law. Included in the PPA are new minimum funding rules which came into effect for plan years beginning in 2008. The funding target will be 100% of a plan's liability with any shortfall amortized over seven years, with lower (92% – 100%) funding targets available to well-funded plans during the transition period provided pursuant to the PPA. Due to the significant declines in the valuation of capital markets during 2008, the Worker, Retiree, and Employer Recovery Act of 2008 (Recovery Act) was signed into law on December 23, 2008. Included in the Recovery Act are temporary modifications to the minimum funding rules set forth in the PPA such that all plans, except those that were subject to deficit reduction contribution requirements in 2007, are allowed to amortize any shortfall from the lower funding targets, rather than the 100% target, for the 2008 – 2010 plan years.

The Company made cash contributions of $4.2 million, $2.8 million and $2.8 million to its pension plan in 2009, 2008 and 2007, respectively, which exceeded minimum funding requirements. Recent and future declines in the valuation of capital markets could require the Company to make cash contributions to its pension plans substantially in excess of its cash contributions in prior years, which could adversely affect its financial condition.

The Financial Accounting Standards Board (FASB) guidance on accounting for pension and other post retirement benefit obligations requires companies to record on their balance sheets the funded status of their retirement benefit obligations (RBO). The Company has recognized a liability for the projected RBO of its plans and a corresponding regulatory asset, to recognize the future collection of these obligations in electric and gas rates. In the event that the Company is unable to recover these costs or recovery of these costs were to be significantly delayed, the Company's operating results could be materially adversely affected. See Part II, Item 7 below for Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity, Commitments and Capital Requirements section and Note 9 to the accompanying Consolidated Financial Statements.

Increases in interest rates could have a negative impact on the Company's financial condition and the Company may need to use a significant portion of its cash flow to repay its outstanding indebtedness.

The Company and its utility subsidiaries have ongoing capital expenditure and cash funding requirements that they frequently fund by issuing short-term debt and long-term debt.

Short-term debt borrowings are typically at variable rates of interest. Therefore, changes in short-term interest rates will increase or decrease the Company's interest expense associated with short-term borrowings. Increases in interest rates generally will increase the Company's borrowing costs with respect to short-term debt and could adversely affect its financial condition or results of operations. As of December 31, 2009, the Company had approximately $64.5 million outstanding under its revolving credit facility.

Long-term debt borrowings are typically at fixed rates of interest. Therefore, changes in interest rates do not affect interest expense associated with presently outstanding fixed rate long-term debt securities. However, changes in interest rates may affect the interest rate and corresponding interest expense on any new long-term debt securities that are issued. See Part II, Item 7 below for Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity, Commitments and Capital Requirements section and Note 4 to the accompanying Consolidated Financial Statements.

The Company may need to use a significant portion of its cash flow to repay its short-term debt and long-term debt, which would limit the amount of cash it has available for working capital, capital expenditures and other general corporate purposes and could negatively affect its liquidity, financial condition and results of operations.

The Company's and its subsidiaries' indebtedness contains covenants that could restrict the Company's business operations.

See Part II, Item 7 below for Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity, Commitments and Capital Requirements section and Note 4 to the accompanying Consolidated Financial Statements.

Weather conditions may cause the Company's sales to vary from year to year.

Sales by the Company's distribution utilities vary from year to year, depending on weather conditions. The Company estimates that approximately 50% of its annual natural gas sales are temperature sensitive. As a result, mild winter temperatures can cause a decrease in the amount of natural gas sold by the Company in any year, particularly during the winter heating season. The Company's electric sales are generally less sensitive to weather than its natural gas sales, but may also be affected by weather conditions in both the winter and summer seasons. The highest usage of electricity typically occurs in both the summer months due to air conditioning demand and the winter months due to heating-related requirements and shorter daylight hours.

The Company's results of operations reflect this seasonal nature. In particular, the Company expects that consolidated results of operations in future reporting periods will reflect to a greater degree the seasonal nature of natural gas sales by Northern Utilities, which was acquired by the Company on December 1, 2008. Accordingly, the Company expects that results of operations will be positively affected during the first and fourth quarters, when sales of natural gas are typically higher, and negatively affected during the second and third quarters, when gas operating and maintenance expenses usually exceed sales margins in the period.

Unitil is a holding company and has no operating income of its own. The Company's ability to pay dividends on its common stock is dependent on dividends received from its subsidiaries and on factors directly affecting Unitil, the parent corporation. The Company cannot assure you that its current annual dividend will be paid in the future.

Unitil is a public utility holding company and it does not have any operating income of its own. Consequently, the Company's ability to pay dividends on its common stock is dependent on dividends and other payments received from its subsidiaries, principally Unitil Energy, Fitchburg, Northern Utilities and Granite State. The ability of the Company's subsidiaries to pay dividends or make distributions to Unitil will depend on, among other things:

- the actual and projected earnings and cash flow, capital requirements and general financial condition of our subsidiaries;
- the prior rights of holders of existing and future preferred stock, mortgage bonds, long-term notes and other debt issued by the Company's subsidiaries;
- the restrictions on the payment of dividends contained in the existing loan agreements of Unitil Energy, Fitchburg, Northern Utilities and Granite State and that may be contained in future debt agreements of the Company's subsidiaries, if any; and
- limitations that may be imposed by New Hampshire, Massachusetts and Maine state regulatory agencies.

In addition, the Company may incur indebtedness in the future. Before the Company can pay dividends on its common stock, it has to satisfy its debt obligations and comply with any statutory or contractual limitations.

The Company's current annual dividend is $1.38 per share of common stock, payable quarterly. However, the Company's Board of Directors reviews Unitil's dividend policy periodically in light of the factors referred to above, and the Company cannot assure the amount of dividends, if any, that may be paid in the future.

Transporting and storing natural gas and supplemental gas supplies, as well as electricity, involves numerous risks that may result in accidents and other operating risks and costs.

Inherent in the Company's electric and natural gas distribution activities are a variety of hazards and operating risks, such as leaks, explosions, electrocutions and mechanical problems that could cause substantial financial losses. In addition, these risks could result in loss of human life, significant damage to property, environmental pollution, and impairment of the Company's operations and substantial losses to Unitil. In accordance with customary industry practice, the Company maintains insurance against some, but not all, of these risks and losses. The location of pipelines, storage facilities and electric distribution equipment near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. The occurrence of any of these events not fully covered by insurance could adversely affect the Company's financial position and results of operations.

The Company's business is subject to environmental regulation in all jurisdictions in which it operates and its costs of compliance are significant. Any changes in existing environmental regulation and the incurrence of environmental liabilities could negatively affect the Company's results of operations and financial condition.

The Company's utility operations are generally subject to extensive federal, state and local environmental laws and regulations relating to air quality, water quality, waste management, natural resources, and the health and safety of the Company's employees. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties; imposition of remedial requirements; and even issuance of injunctions to ensure future compliance. Liability under certain environmental laws is strict, joint and several in nature. Although the Company believes it is in general compliance with all applicable environmental and safety laws and regulations, there can be no assurance that significant costs and liabilities will not be incurred in the future. Moreover, it is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations, could result in increased environmental compliance costs.

Catastrophic events could have a material adverse effect on the Company's financial condition or results of operations.

The electric and natural gas utility industries are from time to time affected by catastrophic events, such as unusually severe weather and significant and widespread failures of plant and equipment. Other catastrophic occurrences, such as terrorist attacks on utility facilities, may occur in the future. Such events could have a material adverse effect on the Company since they could inhibit its ability to continue providing electric and/or natural gas distribution services to its customers for an extended period, which is the principal source of the Company's operating income.

The Company's business could be adversely affected if it is unable to retain its existing customers or attract new customers.

The success of the Company's business depends, in part, on its ability to maintain and increase its customer base. The Company's failure to maintain or attract customers could have a material adverse effect on its business, financial condition and operating results.

The Company cannot guarantee customers' future performance under multi-year energy brokering contracts.

The Company's non-regulated energy brokering business provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Revenues from this business are primarily derived from brokering fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts. The Company cannot guarantee customers' future performance under multi-year energy brokering contracts.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2009, Unitil owned, through its distribution utilities, three utility operation centers, approximately 2,177 pole miles of local transmission and distribution overhead electric lines and 596 conduit bank miles of underground electric distribution lines, along with 48 electric substations, including three mobile electric substations. Our natural gas operations property includes two LPG plants, two LNG plants and 1,219 miles of underground gas mains. In addition, our real estate subsidiary, Unitil Realty, owns our corporate headquarters building and the 12 acres of land on which it is located.

Unitil Energy owns and maintains distribution operations centers in Concord, New Hampshire and Kensington, New Hampshire. Unitil Energy's 29 electric distribution substations, including one 5,000 kilovolt ampere and one 10,500 kilovolt ampere kVA mobile substation, constitute 219,037 kVA of capacity, which excludes capacity of spare transformers, for the transformation of electric power from the 34.5 kV subtransmission voltage to other primary distribution voltage levels. The electric substations are located on land owned by Unitil Energy or land occupied by Unitil Energy pursuant to perpetual easements.

Unitil Energy has a total of approximately 1,617 pole miles of local transmission and distribution overhead electric lines and a total of 416 conduit bank miles of underground electric distribution lines. The electric distribution lines are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by Unitil Energy without objection by the owners. In the case of certain distribution lines, Unitil Energy owns only a part interest in the poles upon which its wires are installed, the remaining interest being owned by telephone companies.

The physical utility properties of Unitil Energy, with certain exceptions, and its franchises are subject to its indenture of mortgage and deed of trust under which the respective series of first mortgage bonds of Unitil Energy are outstanding.

Fitchburg's electric properties consist principally of 560 pole miles of local transmission and distribution overhead electric lines, 180 conduit bank miles of underground electric distribution lines and 19 transmission and distribution stations (including two mobile electric substations). The capacity of these substations totals 443,150 kVA, which excludes capacity of spare transformers.

Fitchburg owns a LPG plant and a LNG plant, both of which are located on land owned by Fitchburg. Fitchburg also has 263 miles of underground steel, cast iron and plastic gas mains.

Fitchburg's electric substations, with minor exceptions, are located on land owned by Fitchburg or occupied by Fitchburg pursuant to perpetual easements. Fitchburg's electric distribution lines and gas mains are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by Fitchburg without objection by the owners. Fitchburg leases its distribution operations center located in Fitchburg, Massachusetts.

Northern Utilities' distribution system is comprised of 956 miles of gas mains and 38,692 service pipes. The gas mains are primarily made up of polyethylene plastic (65%), coated and wrapped cathodically protected steel (22%), cast/wrought iron (8%), and unprotected bare and coated steel (5%).

Northern Utilities' New Hampshire division serving 21 communities has 485 miles of distribution gas mains and 19,468 service pipes. Northern Utilities' Maine division serving 23 communities has 471 miles of distribution and 19,224 service pipes. Northern Utilities also owns a liquid propane gas plant on land owned by Northern Utilities.

Granite State is a natural gas transmission pipeline, regulated by the FERC, operating 87 miles of underground gas transmission pipeline located in Maine and New Hampshire.

The Company believes that its facilities are currently adequate for their intended uses.

Item 3. Legal Proceedings

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. The Company believes, based upon information furnished by counsel and others, the ultimate resolution of these claims will not have a material impact on the Company's financial position.

A putative class action complaint was filed against Fitchburg on January 7, 2009 in Worcester Superior Court in Worcester, Massachusetts, captioned Bellerman v. Fitchburg Gas and Electric Light Company. On April 1, 2009, an Amended Complaint was filed in Worcester Superior Court and served on Fitchburg. The Amended Complaint seeks an unspecified amount of damages including the cost of temporary housing and alternative fuel sources, emotional and physical pain and suffering and property damages allegedly incurred by customers in connection with the loss of electric service during the December 2008 Ice Storm. The Amended Complaint includes M.G.L. ch. 93A claims for purported unfair and deceptive trade practices related to the December 2008 Ice Storm. On September 4, 2009, the Superior Court issued its order on the Company's Motion to Dismiss the Complaint, granting it in part and denying it in part. The Company continues to believe the suit is without merit, and will defend itself vigorously.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Registrant's common stock is listed on the New York Stock Exchange under the symbol "UTL". As of December 31, 2009, there were 1,644 shareholders of record.

Common Stock Data

Dividends per Common Share	2009	2008
1st Quarter	**$0.345**	$0.345
2nd Quarter	**0.345**	0.345
3rd Quarter	**0.345**	0.345
4th Quarter	**0.345**	0.345
Total for Year	**$ 1.38**	$ 1.38

	2009		2008	
Price Range of Common Stock	High/Ask	Low/Bid	High/Ask	Low/Bid
1st Quarter	**$20.75**	**$17.93**	$29.00	$25.75
2nd Quarter	**$22.79**	**$19.05**	$28.60	$26.41
3rd Quarter	**$23.20**	**$20.53**	$27.94	$25.46
4th Quarter	**$23.46**	**$19.55**	$26.60	$19.50

Information regarding Securities Authorized for Issuance Under Equity Compensation Plans is set forth in the table below.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders			
Restricted Stock Plan (1)	—	N/A	62,318
Equity compensation plans not approved by security holders			
1998 Option Plan (2)	63,500	$28.90	—
Total	63,500	$28.90	62,318

NOTES: (also see Note 3 to the accompanying Consolidated Financial Statements)

(1) The Restricted Stock Plan (the Plan) was approved by shareholders in April 2003. 10,600 shares of restricted stock were awarded to Plan participants in May 2003; 10,700 shares of restricted stock were awarded to Plan participants in April 2004; 10,900 shares of restricted stock were awarded to Plan participants in March 2005; 14,375 shares of restricted stock were awarded to Plan participants in February 2006; 9,020 shares of restricted stock were awarded to Plan participants in February 2007; 15,540 shares of restricted stock were awarded to Plan participants in February 2008; 32,260 shares of restricted stock were awarded to Plan participants in February 2009. 12,520 shares of restricted stock were awarded to Plan participants in February 2010.

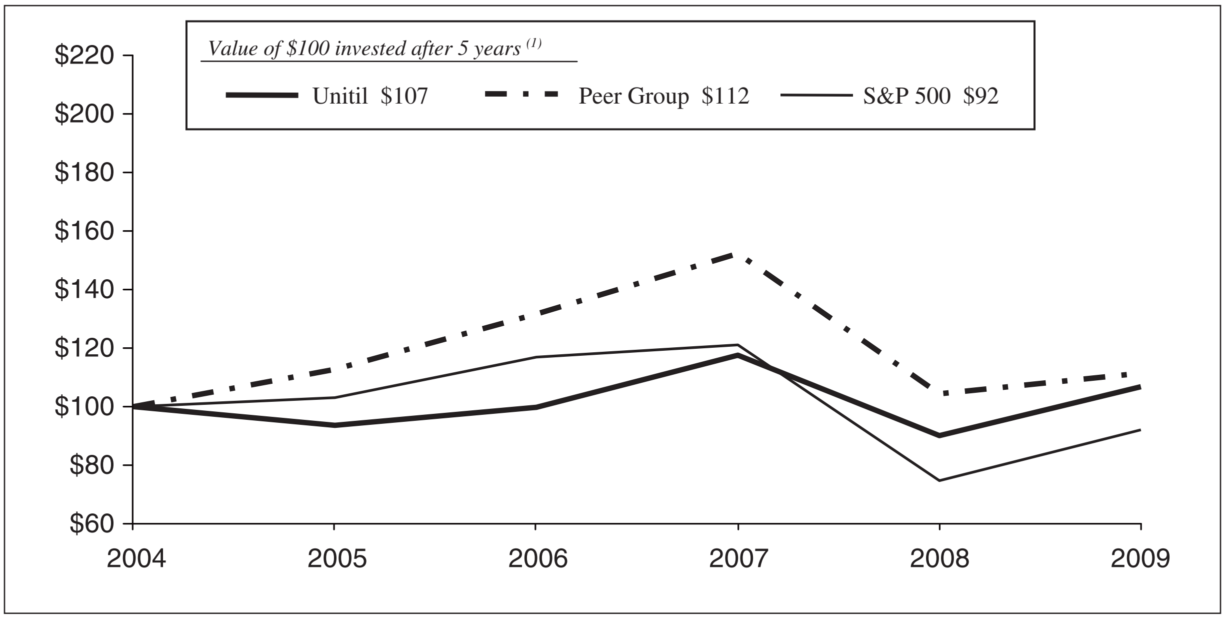
(2) The 1998 Option Plan was adopted by the Board of Directors of the Company in December 1998. At the time of adoption, the 1998 Option Plan was not required, under American Stock Exchange (the exchange upon which the Company was then listed) rules, to obtain shareholder approval. Options were granted in March 1999, January 2000, and January 2001. On January 16, 2003, the Board of

Directors terminated the 1998 Option Plan upon the recommendation of the Compensation Committee. In April 2004, the 177,500 remaining registered and ungranted shares in the 1998 Option Plan were deregistered with the Securities and Exchange Commission. The 1998 Option Plan will remain in effect solely for the purposes of the continued administration of all options currently outstanding under the 1998 Option Plan. No further grants of options will be made thereunder.

Stock Performance Graph

The following graph compares Unitil's cumulative stockholder return since December 31, 2004 with the Peer Group index, comprised of the S&P Utility Index, and the S&P 500 index. The graph assumes that the value of the investment in the Company's common stock and each index (including reinvestment of dividends) was $100 on December 31, 2004.

Comparative Five-Year Total Returns



NOTES:

(1) The graph above assumes $100 invested on December 31, 2004, in each category and the reinvestment of all dividends during the five-year period. The Peer Group is comprised of the S&P Utility Index.

Unregistered Sales of Equity Securities and Uses of Proceeds

There were no sales of unregistered equity securities by the Company for the fiscal period ended December 31, 2009.

Pursuant to the written trading plan under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act), adopted by the Company on March 26, 2009, the Company periodically repurchases shares of its Common Stock on the open market related to Employee Length of Service Awards and the stock portion of the Directors' annual retainer. The Company may suspend or terminate its Rule 10b5-1 trading plan at any time, so long as the suspension or termination is made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5 under the Exchange Act, or other applicable securities laws. There is no pool or maximum number of shares related to these purchases; however, the trading plan will terminate when $83,000 in value of shares have been purchased or, if sooner, on March 26, 2010.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
10/1/09 – 10/31/09	—	—	—
11/1/09 – 11/30/09	—	—	—
12/1/09 – 12/31/09	2,781	$21.57	2,781
Total	2,781	$21.57	2,781

Item 6. Selected Financial Data

For the Years Ended December 31,	2009	2008	2007	2006	2005
(all data in millions except shares, % and per share data) [1]					
Consolidated Statements of Earnings:					
Operating Revenue	**$ 367.0**	$ 288.2	$ 262.9	$ 260.9	$ 232.1
Operating Income	**26.1**	20.5	18.5	15.8	15.5
Other Non-operating Expense (Income)	**0.3**	0.3	0.2	—	0.1
Income Before Interest Expense, net	**25.8**	20.2	18.3	15.8	15.4
Interest Expense, net	**15.8**	10.5	9.6	7.8	6.8
Net Income	**10.0**	9.7	8.7	8.0	8.6
Dividends on Preferred Stock	**0.1**	0.1	0.1	0.1	0.2
Earnings Applicable to Common Shareholders	**$ 9.9**	$ 9.6	$ 8.6	$ 7.9	$ 8.4
Balance Sheet Data:					
Utility Plant (Original Cost)	**$ 682.7**	$ 641.4	$ 380.5	$ 353.0	$ 325.0
Total Assets	**$ 725.2**	$ 733.2	$ 474.6	$ 483.4	$ 450.1
Capitalization:					
Common Stock Equity	**$ 193.1**	$ 139.5	$ 100.4	$ 97.8	$ 96.3
Preferred Stock	**2.0**	2.0	2.1	2.1	2.3
Long-Term Debt, less current portion	**248.9**	249.3	159.6	140.0	125.4
Total Capitalization	**$ 444.0**	$ 390.8	$ 262.1	$ 239.9	$ 224.0
Current Portion of Long-Term Debt	**$ 0.4**	$ 0.4	$ 0.4	$ 0.3	$ 0.3
Short-term Debt	**$ 64.5**	$ 74.1	$ 18.8	$ 26.0	$ 18.7
Capital Structure Ratios:					
Common Stock Equity	**43%**	36%	38%	41%	43%
Preferred Stock	**1%**	1%	1%	1%	1%
Long-Term Debt	**56%**	63%	61%	58%	56%
Earnings Per Share Data:					
Earnings Per Average Share	**$ 1.03**	$ 1.65	$ 1.52	$ 1.41	$ 1.51
Common Stock Data:					
Shares of Common Stock—(Average Outstanding, 000's)	**9,647**	5,830	5,672	5,612	5,568
Dividends Paid Per Share	**$ 1.38**	$ 1.38	$ 1.38	$ 1.38	$ 1.38
Book Value Per Share (Year-End)	**$ 17.83**	$ 17.90	$ 17.50	$ 17.30	$ 17.21
Electric and Gas Sales:					
Electric Distribution Sales (Millions kWh)	**1,618.8**	1,695.9	1,743.0	1,751.5	1,790.4
Firm Natural Gas Distribution Sales (Millions Therms)	**178.7**	47.2	28.4	26.4	24.3

(1) As a result of the acquisitions of Northern Utilities and Granite State on December 1, 2008, consolidated results for the Company in the current period may not be directly comparable to prior period results until such time as the acquisitions are fully reflected in both reporting periods.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) (Note references are to Notes to the Consolidated Financial Statements in Item 8.)

OVERVIEW

Unitil is a public utility holding company headquartered in Hampton, New Hampshire. Unitil is subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005. On December 1, 2008, the Company purchased: (i) all of the outstanding capital stock of Northern Utilities, a natural gas distribution utility serving customers in New Hampshire and Maine, from Bay State and (ii) all of the outstanding capital stock of Granite State, an interstate gas transmission pipeline company primarily serving the needs of Northern Utilities, from NiSource.

Unitil's principal business is the local distribution of electricity and natural gas throughout its service territory in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three wholly-owned distribution utilities:

i) Unitil Energy, which provides electric service in southeastern seacoast and state capital regions of New Hampshire;

ii) Fitchburg, which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts; and

iii) Northern Utilities, which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine, including the city of Portland and the Lewiston-Auburn area.

Unitil Energy, Fitchburg and Northern Utilities are collectively referred to as the "distribution utilities." Together, the distribution utilities serve approximately 100,500 electric customers and 70,000 natural gas customers in their service territory.

In addition, Unitil is the parent company of Granite State, a natural gas transmission pipeline, regulated by the FERC, operating 87 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to three major natural gas pipelines and access to pipeline supplies.

The distribution utilities are local "pipes and wires" operating companies and, combined with Granite State, had an investment in Net Utility Plant of $449.7 million at December 31, 2009. Unitil's total revenue was $367.0 million in 2009, which includes revenue to recover the approved cost of purchased electricity and natural gas in rates on a fully reconciling basis. As a result of this reconciling rate structure, the Company's earnings are not affected by changes in the cost of purchased electricity and natural gas. Earnings from Unitil's utility operations are derived from the return on investment in the three distribution utilities and Granite.

Unitil also conducts non-regulated operations principally through Usource, which is wholly-owned by Unitil Resources. Usource provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Usource's total revenues were $4.3 million in 2009. The Company's other subsidiaries include Unitil Service, which provides, at cost, a variety of administrative and professional services to Unitil's affiliated companies, and Unitil Realty, which owns and manages Unitil's corporate office building and property located in Hampton, New Hampshire. Unitil's consolidated net income includes the earnings of the holding company and these subsidiaries.

CAUTIONARY STATEMENT

This report and the documents we incorporate by reference into this report contain statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included or incorporated by reference into this report, including, without limitation, statements regarding the financial position, business strategy and other plans and objectives for the Company's future operations, are forward-looking statements.

These statements include declarations regarding the Company's beliefs and current expectations. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. These forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the risks and uncertainties include those described in Item 1A (Risk Factors) and the following:

- The Company's ability to achieve the estimated potential synergy savings attributable to the Acquisitions;
- The Company's ability to retain existing customers and gain new customers;
- Variations in weather;
- Major storms;
- Recovery of deferred major storm costs;
- Recovery of energy commodity costs;
- Changes in the regulatory environment;
- Customers' preferences on energy sources;
- Interest rate fluctuation and credit market concerns;
- General economic conditions that could have an adverse impact on the availability of credit and liquidity resources generally and could jeopardize certain of our counterparty obligations, including those of our insurers and financial institutions;
- Fluctuations in supply, demand, transmission capacity and prices for energy commodities;
- Increased competition; and
- Customers' performance under multi-year energy brokering contracts.

Many of these risks are beyond the Company's control. Any forward-looking statements speak only as of the date of this report, and the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for the Company to predict all of these factors, nor can the Company assess the impact of any such factor on its business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements.

See also Item 1A Risk Factors.

ACCOUNTING CODIFICATION

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles", (SFAS No. 168), a replacement of SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States (U.S. GAAP). SFAS No. 168 is effective for financial statements for interim and annual periods ending after September 15, 2009. SFAS No. 168 establishes the FASB Accounting Standards Codification (FASB Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. The purpose of the FASB Codification is to simplify U.S. GAAP, without change, by consolidating the numerous accounting rules into logically organized topics. The Company has adopted SFAS No. 168 and therefore all references by the Company to authoritative accounting principles recognized by the FASB reflect the FASB Codification.

RESULTS OF OPERATIONS

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the accompanying Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in Item 8 of this report.

As a result of the acquisitions of Northern Utilities and Granite State, consolidated results for the Company in the current period may not be directly comparable to prior period results until such time as the acquisitions are fully reflected in both reporting periods. In particular, the Company's results will reflect the seasonal nature of the natural gas business. Accordingly, the Company expects that results of operations will be positively affected during the first and fourth quarters, when sales of natural gas are typically higher, and negatively affected during the second and third quarters, when gas operating and maintenance expenses usually exceed sales margins in the period.

Net Income and EPS Overview

2009 Compared to 2008—The Company's Earnings Applicable to Common Shareholders was $1.2 million, or $0.11 per common share, for the fourth quarter of 2009 compared to $3.2 million, or $0.53 per common share, for the fourth quarter of 2008. The Company also reported earnings of $9.9 million for the full year period of 2009, compared to $9.6 million for 2008. Earnings per common share were $1.03 for 2009, ($0.62) per share lower than last year's earnings of $1.65. The lower earnings per common share in the fourth quarter and full year period of 2009 primarily reflect higher regulatory and legal expenses in 2009 associated with the devastating ice storm that struck New England in December 2008 and a significant non-recurring regulatory matter.

In 2009 the Company recognized professional fees of approximately $3.0 million related to regulatory and legal matters concerning the Company's preparation and response to the devastating ice storm that struck the New England region on December 11 and 12, 2008. In the fourth quarter of 2009, the Company also recognized a non-recurring accounting charge for a regulatory order that required Fitchburg Gas and Electric Light Company, the Company's Massachusetts combination gas and electric operating utility, to refund $4.9 million of natural gas supply costs, including carrying charges. Excluding these one-time charges, the Company's Earnings Applicable to Common Shareholders was $5.1 million, or $0.47 per common share, for the fourth quarter of 2009 and $15.1 million, or $1.57 per share, for the full year ended December 31, 2009.

In addition to the one-time charges, earnings in 2009 reflect higher gas utility sales margins offset by higher operating, depreciation and interest costs. Natural gas sales margin increased $35.1 million in 2009 compared to 2008, reflecting the contribution to natural gas sales by Northern Utilities and Granite State. Natural gas sales margin also includes the unfavorable effect of a refund of $4.9 million of natural gas supply costs recorded in the fourth quarter of 2009. Electric sales margin increased $0.4 million in 2009 compared to 2008, reflecting higher electric rates offset by lower sales. Total electric kilowatt-hour (kWh) sales decreased 4.5% in 2009 compared to 2008, reflecting lower average usage by customers due to the continued economic slowdown and milder summer weather in 2009. Average summer temperatures in the Company's electric service territories, as measured by cooling degree days, were 31% cooler in 2009 compared to the same period in 2008 and were 26% cooler than normal. Unitil paid common dividends of $1.38 in 2009.

Total Operation & Maintenance (O&M) expenses increased $17.2 million, or 62.5%, in 2009 compared to 2008. The inclusion of Northern Utilities and Granite State for the full year in 2009 accounted for $8.8 million of the increase. In addition, higher compensation and retiree and employee benefit expenses of $2.2 million and net other utility operating costs of $0.4 million contributed to the increase in O&M expenses year over year. As discussed above, in 2009 the Company expensed professional fees of approximately $3.0 million related to regulatory and legal matters concerning the December 2008 Ice Storm. The increase in O&M expenses in 2009 over 2008 also reflects lower O&M recorded in 2008 due to the receipt of a $2.8 million insurance settlement in that year.

Depreciation, Amortization, Taxes and Other expenses increased $13.2 million in 2009 compared to 2008. The increase is largely due to the inclusion of Northern Utilities and Granite State for the full year in 2009, higher depreciation on normal utility plant additions and higher income taxes on higher pre-tax earnings in 2009.

Interest Expense, Net increased $5.3 million in 2009 compared to 2008. The increase is due to the issuance of $90 million of long-term notes issued by Northern Utilities and Granite State in December 2008 to partially finance the acquisition and higher average borrowings during 2009, partially offset by increases in interest income on regulatory assets and Allowance for Funds Used During Construction (AFUDC) in 2009.

The Company's non-regulated energy brokering and advisory services business, Usource, achieved sales margins of $4.3 million in 2009, and contributed $1.6 million to consolidated Earnings, or $0.16 per share for the year compared to earnings of $0.3 million, or $0.06 per share in 2008.

On December 11 and 12, 2008, a severe ice storm struck the New England region, creating extended power outages for many residents of Massachusetts and New Hampshire, including Unitil's electric customers in New Hampshire and the greater Fitchburg, Massachusetts service territory. As discussed above, the Company has received approval from the MDPU and the NHPUC to defer storm restoration costs associated with the repair of damages to its electric distribution system caused by the December 2008 Ice Storm and to request recovery for these costs in Fitchburg's and Unitil Energy's next rate cases. The Company has accrued and deferred, excluding capital construction expenditures, approximately $14.6 million in costs, including carrying charges, for the repair and replacement of electric distribution systems damaged during the storm. The Company does not believe these storm restoration expenditures and the timing of cost recovery will have a material adverse impact on the Company's financial condition or results of operations.

In 2009, Unitil's annual common dividend was $1.38, representing an unbroken record of quarterly dividend payments since trading began in Unitil's common stock. At its January 2010 meeting, the Unitil Board of Directors declared a quarterly dividend on the Company's common stock of $0.345 per share.

Between December 2008 and June 2009, the Company sold 4,970,000 shares of its common stock at a price of $20.00 per share in registered public offerings. The Company used the net proceeds of $93.1 million from these offerings to finance the acquisition of Northern Utilities and Granite State and for capital contributions to Unitil's other distribution utilities and the repayment of short-term debt. Overall, the results of operations and net income are reflected over a higher number of average shares outstanding year over year.

2008 Compared to 2007—The Company's Earnings Applicable to Common Shareholders was $9.6 million for 2008, an increase of 12% over 2007 Earnings of $8.6 million. Earnings per common share were $1.65 for 2008, $0.13 per share higher than last year. Earnings in 2008 reflect the acquisitions, on December 1, 2008, of Northern Utilities and Granite State. The acquisitions have increased the share of the company's operating results attributable to gas operations, which have a higher proportion of annual gas sales margin during the winter months.

A more detailed discussion of the Company's 2009 and 2008 results of operations and a year-to-year comparison of changes in financial position are presented below.

Gas Sales, Revenues and Margin

Therm Sales—Overall, Unitil's total therm sales of natural gas increased 278.6% in 2009 compared to 2008, reflecting the contribution to sales by Northern Utilities. Excluding the contribution to sales by Northern Utilities, total therm sales of natural gas decreased 0.7% in 2009 compared to 2008, reflecting a decrease of 2.0% in sales to residential customers and flat year over year sales to C&I customers. The decrease in sales to residential customers reflects lower average usage by our customers, due to a slowing economy and energy conservation, partially offset by a colder winter heating season in the first quarter of 2009.

Overall, Unitil's total therm sales of natural gas increased 66.2% in 2008 compared to 2007. Excluding the contribution of the acquisition of Northern Utilities, total therm sales of natural gas increased 1.1% in 2008 compared to 2007, reflecting a decrease of 2.0% in sales to residential customers offset by an increase of 2.7% in sales to C&I customers. The lower sales to residential customers in 2008 reflects a milder winter heating season and lower average usage by our customers reflecting a slowing economy and energy conservation. The increase in gas sales to C&I customers in 2008 reflects increased usage of natural gas in those customers' production operations.

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

Therm Sales (millions)

				2009 vs. 2008		2008 vs. 2007	
	2009	**2008**	**2007**	**Change**	**Change %**	**Change**	**Change %**
Residential	**36.7**	13.3	10.2	23.4	175.9%	3.1	30.4%
Commercial / Industrial	**142.0**	33.9	18.2	108.1	318.9%	15.7	86.3%
Total	**178.7**	47.2	28.4	131.5	278.6%	18.8	66.2%

Gas Operating Revenues and Sales Margin—The following table details Total Gas Operating Revenue and Gas Sales Margin for the last three years by major customer class:

Gas Operating Revenues and Gas Sales Margin (millions)

				2009 vs. 2008		2008 vs. 2007	
	2009	**2008**	**2007**	**$ Change**	**% Change (1)**	**$ Change**	**% Change (1)**
Gas Operating Revenue:							
Residential	**$ 62.0**	$27.5	$18.8	$34.5	60.6%	$ 8.7	25.4%
Commercial / Industrial	**90.8**	29.4	15.4	61.4	107.9%	14.0	41.0%
Total Gas Operating Revenue	**$152.8**	$56.9	$34.2	$95.9	168.5%	$22.7	66.4%
Cost of Gas Sales:							
Purchased Gas	**$ 96.4**	$37.3	$21.3	$59.1	103.9%	$16.0	46.8%
Conservation & Load Management	**1.9**	0.2	0.2	1.7	2.9%	—	—
Total Cost of Gas Sales	**$ 98.3**	$37.5	$21.5	$60.8	106.8%	$16.0	46.8%
Gas Sales Margin	**$ 54.5**	$19.4	$12.7	$35.1	61.7%	$ 6.7	19.6%

(1) Represents change as a percent of Total Gas Operating Revenue.

Total Gas Operating Revenues increased $95.9 million, or 168.5%, in 2009 compared to 2008, reflecting the inclusion of Northern Utilities and Granite State for the full year in 2009. Total Gas Operating Revenues include the recovery of the approved cost of sales, which are recorded as Purchased Gas and Conservation and Load Management (C&LM) in Operating Expenses. The increase in Total Gas Operating Revenues in 2009 reflects higher Purchased Gas costs of $59.1 million, higher C&LM revenues of $1.7 million and higher sales margin of $35.1 million.

Purchased Gas and C&LM revenues increased $60.8 million, or 106.8%, of Total Gas Operating Revenues in 2009 compared to 2008, reflecting the inclusion of Northern Utilities and Granite State for the full year in 2009 and the $4.9 million refund of natural gas supply costs recorded in the fourth quarter of 2009. Purchased Gas revenues include the recovery of the approved cost of gas supply as well as the other energy supply related costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. The Company recovers the approved cost of Purchased Gas and C&LM in its rates at cost on a pass through basis.

Natural gas sales margin increased $35.1 million in 2009 compared to 2008, reflecting the contribution to natural gas sales by Northern Utilities and Granite State. Natural gas sales margin also includes the unfavorable effect of a refund of $4.9 million of natural gas supply costs recorded in the fourth quarter of 2009.

Total Gas Operating Revenues increased $22.7 million, or 66.4%, in 2008 compared to 2007, largely reflecting the acquisition of Northern Utilities and Granite State on December 1, 2008 and the 1.1% increase in gas sales, net of the effect of the acquisitions, and higher rates implemented in November 2007. The increase in Total Gas Operating Revenues in 2008 reflects higher Purchased Gas costs of $16.0 million and higher sales margin of $6.7 million.

Natural gas sales margin increased $6.7 million in 2008 compared to 2007. This increase reflects $5.4 million of gas sales margin from Northern Utilities and Granite State and an additional increase of $1.3 million in gas sales margin reflecting higher rates implemented in November 2007 and higher sales to C&I customers.

Electric Sales, Revenues and Margin

Kilowatt-hour Sales—Unitil's total electric kWh sales decreased 4.5% in 2009 compared to 2008. Electric kWh sales to residential customers and C&I customers decreased 2.2% and 6.1%, respectively, in 2009 compared to 2008. The lower electric kWh sales in 2009 compared to 2008 reflect lower average usage by our customers due to the continued regional economic slowdown and milder summer weather in 2009. Average summer temperatures in the Company's electric service territories, as measured by cooling degree days, were 31% cooler in 2009 compared to the same period in 2008 and were 26% cooler than normal.

Unitil's total electric kWh sales decreased 2.7% in 2008 compared to 2007. Electric kWh sales to residential customers and C&I customers decreased 2.2% and 3.0%, respectively, in 2008 compared to 2007. The lower electric kWh sales in 2008 compared to 2007 were driven by lower average usage per customer reflecting milder summer temperatures, a slowing economy and energy conservation.

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

kWh Sales (millions)

				2009 vs. 2008		2008 vs. 2007	
	2009	**2008**	**2007**	**Change kWh**	**Change %**	**Change kWh**	**Change %**
Residential	**645.9**	660.2	674.8	(14.3)	(2.2%)	(14.6)	(2.2%)
Commercial / Industrial	**972.9**	1,035.7	1068.2	(62.8)	(6.1%)	(32.5)	(3.0%)
Total	**1,618.8**	1,695.9	1,743.0	(77.1)	(4.5%)	(47.1)	(2.7%)

Electric Operating Revenues and Sales Margin—The following table details Total Electric Operating Revenue and Electric Sales Margin for the last three years by major customer class:

Electric Operating Revenues and Electric Sales Margin (millions)

				2009 vs. 2008		2008 vs. 2007	
	2009	**2008**	**2007**	**$ Change**	**% Change (1)**	**$ Change**	**% Change (1)**
Electric Operating Revenue:							
Residential	**$108.9**	$114.5	$114.7	$ (5.6)	(2.5%)	$(0.2)	(0.1%)
Commercial / Industrial	**101.0**	113.0	110.3	(12.0)	(5.2%)	2.7	1.2%
Total Electric Operating Revenue	**$209.9**	$227.5	$225.0	$(17.6)	(7.7%)	$ 2.5	1.1%
Cost of Electric Sales:							
Purchased Electricity	**$151.6**	$170.1	$165.4	$(18.5)	(8.1%)	$ 4.7	2.1%
Conservation & Load Management	**3.1**	2.6	3.4	0.5	0.2%	(0.8)	(0.4%)
Total Cost of Electric Sales	**$154.7**	$172.7	$168.8	$(18.0)	(7.9%)	$ 3.9	1.7%
Electric Sales Margin	**$ 55.2**	$ 54.8	$ 56.2	$ 0.4	0.2%	$(1.4)	(0.6%)

(1) Represents change as a percent of Total Electric Operating Revenue.

Total Electric Operating Revenues decreased by $17.6 million, or 7.7%, in 2009 compared to 2008. Total Electric Operating Revenues include the recovery of approved costs of electric sales, which are recorded as Purchased Electricity and C&LM in Operating Expenses. The net decrease in Total Electric Operating Revenues in 2009 reflects lower Purchased Electricity costs of $18.5 million offset by higher C&LM revenues of $0.5 million and higher sales margin of $0.4 million.

Purchased Electricity and C&LM revenues decreased $18.0 million, or 7.9%, of Total Electric Operating Revenues in 2009 compared to 2008, primarily reflecting lower sales volumes and lower electric commodity prices, partially offset by higher spending on energy efficiency and conservation programs. Purchased Electricity revenues include the recovery of the cost of electric supply as well as other energy supply related restructuring costs, including long-term power supply contract buyout costs. C&LM revenues include the recovery of the approved cost of energy efficiency and conservation programs. The Company recovers the approved cost of Purchased Electricity and C&LM in its rates at cost on a pass through basis.

Electric sales margin increased $0.4 million in 2009 compared to 2008. The increase in electric sales margin reflects higher rates offset by lower sales volumes. Total electric sales decreased 4.5% in 2009 compared to 2008, reflecting lower average usage by our customers due to the continued economic slowdown and milder summer weather in 2009.

Total Electric Operating Revenues increased by $2.5 million, or 1.1%, in 2008 compared to 2007. The net increase in Total Electric Operating Revenues in 2008 reflects higher Purchased Electricity costs of $4.7 million offset by lower C&LM revenues of $0.8 million and lower sales margin of $1.4 million.

Electric sales margin decreased $1.4 million in 2008 compared to 2007. The decrease in electric sales margin primarily reflects lower sales volumes, partially offset by higher electric base rates implemented in March of 2008. Total electric sales decreased 2.7% in 2008 compared to 2007 driven by lower average usage per customer reflecting milder summer temperatures, a slowing economy and energy conservation.

Operating Revenue—Other

Total Other Revenue increased $0.5 million in 2009 compared to 2008 and $0.1 million in 2008 compared to 2007. These increases were the result of growth in revenues from the Company's non-regulated energy brokering business, Usource. Usource's revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource.

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

Other Revenue (millions)

				2009 vs. 2008		2008 vs. 2007	
	2009	**2008**	**2007**	**$ Change**	**% Change**	**$ Change**	**% Change**
Usource	**$4.3**	$3.8	$3.7	$0.5	13.2%	$0.1	2.7%
Total Other Revenue	**$4.3**	$3.8	$3.7	$0.5	13.2%	$0.1	2.7%

Operating Expenses

Purchased Gas—Purchased Gas includes the cost of natural gas purchased and manufactured to supply the Company's total gas supply requirements. Purchased Gas increased $59.1 million, or 158.4%, in 2009 compared to 2008. This increase primarily reflects the inclusion of Northern Utilities for the full year in 2009. The Company recovers the approved costs of Purchased Gas in its rates at cost on a pass through basis and therefore changes in approved expenses do not affect earnings.

In 2008, Purchased Gas increased $16.0 million, or 75.1%, compared to 2007. The increase in Purchased Gas largely reflects the acquisition of Northern Utilities and Granite State on December 1, 2008. In addition to the increase in Purchased Gas due to the acquisitions, Purchased Gas increased $1.5 million, or 7.0%, in 2008 compared to 2007 reflecting higher natural gas commodity prices and higher sales to C&I customers.

Purchased Electricity—Purchased Electricity includes the cost of electric supply as well as other energy supply related restructuring costs, including power supply buyout costs. Purchased Electricity decreased $18.5 million, or 10.9%, in 2009 compared to 2008. This decrease reflects lower sales volumes and lower electric commodity prices. The Company recovers the approved costs of Purchased Electricity in its rates at cost and therefore changes in approved expenses do not affect earnings.

In 2008, Purchased Electricity expenses increased $4.7 million, or 2.8%, compared to 2007, reflecting higher electric commodity prices partially offset by lower sales volumes.

Operation and Maintenance (O&M)—O&M expense includes electric and gas utility operating costs, and the operating costs of the Company's non-regulated business activities. Total O&M expenses increased $17.2 million, or 62.5%, in 2009 compared to 2008. The inclusion of Northern Utilities and Granite State for the full year in 2009 accounted for $8.8 million of the increase. In addition, higher compensation and retiree and employee benefit expenses of $2.2 million and net other utility operating costs of $0.4 million contributed to the increase in O&M expenses year over year. As discussed above, in 2009 the Company expensed professional fees of approximately $3.0 million related to regulatory and legal matters concerning the December 2008 Ice Storm. The increase in O&M expenses in 2009 over 2008 also reflects lower O&M recorded in 2008 due to the receipt of a $2.8 million insurance settlement in that year.

In 2008, total O&M expense increased $1.3 million, or 5.0%, compared to 2007. The acquisitions of Northern Utilities and Granite State accounted for $0.9 million of the increase. In addition, the increase in O&M expenses reflects higher employee and retiree compensation and benefit expenses of $2.7 million, including increased employee benefits of $1.4 million, driven primarily by higher medical claims in 2008 and higher employee benefits related to staffing increases, and higher salaries and compensation of $1.3 million, due to normal annual increases and staffing additions. Also contributing to the increase in O&M expenses were higher utility operating costs of $0.3 million and higher bad debt expenses of $0.3 million, partially offset by a reduction of $2.8 million from the proceeds of an insurance settlement and lower professional fees of $0.1 million.

Conservation & Load Management—C&LM expenses are expenses associated with the development, management, and delivery of the Company's energy efficiency programs. Energy efficiency programs are designed, in conformity to state regulatory requirements, to help consumers use natural gas and electricity more efficiently and thereby decrease their energy costs. Programs are tailored to residential, small business and large business customer groups and provide educational materials, technical assistance, and rebates that contribute toward the cost of purchasing and installing approved measures. Approximately 60% of these costs are related to electric operations and 40% to gas operations.

Total C&LM expenses increased by $2.2 million, in 2009 compared to 2008. These costs are collected from customers on a fully reconciling basis and therefore, fluctuations in program costs do not affect earnings.

Total C&LM expenses decreased by $0.8 million in 2008 compared to 2007.

Depreciation and Amortization—Depreciation and Amortization expense increased $8.3 million, or 43.5% in 2009 compared to 2008. This increase primarily reflects the inclusion of Northern Utilities and Granite State for the full year in 2009 and higher depreciation on normal utility plant additions.

In 2008, Depreciation and Amortization expense increased $1.3 million, or 7.3%, compared to 2007. The acquisitions of Northern Utilities and Granite State accounted for $0.6 million of the increase. In addition, the increase in Depreciation and Amortization expense reflects higher depreciation on normal utility plant additions.

Local Property and Other Taxes—Local Property and Other Taxes increased by $4.1 million, or 63.1%, in 2009 compared to 2008. This increase primarily reflects the inclusion of Northern Utilities and Granite State for the full year in 2009, and higher local property tax rates on higher levels of utility plant in service.

In 2008, Local Property and Other Taxes increased by $0.9 million, or 16.1%, compared to 2007. The acquisitions of Northern Utilities and Granite State accounted for $0.3 million of the increase. In addition, the increase in Local Property and Other Taxes reflects higher local property tax rates on higher levels of utility plant in service and higher payroll taxes on higher compensation expenses.

Federal and State Income Taxes—Federal and State Income Taxes increased by $0.8 million in 2009 compared to 2008 due to higher pre-tax operating income in 2009 compared to 2008 (See Note 8 to the accompanying Consolidated Financial Statements).

Federal and State Income Taxes decreased by $0.1 million in 2008 compared to 2007 due to a lower effective tax rate year over year due to the recognition of higher permanent book/tax differences partially offset by higher pre-tax operating income in 2008 compared to 2007.

Other Non-operating Expenses (Income)

Other Non-operating Expenses (Income) was flat in 2009 compared to 2008.

Other Non-operating Expenses (Income) increased by $0.1 million in 2008 compared to 2007. This change reflects an adjustment of $0.1 million in conjunction with the Company's electric base distribution rate increase in Massachusetts which was implemented in March of 2008.

Interest Expense, net

Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. Certain reconciling rate mechanisms used by the Company's distribution utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated (See Note 4 to the accompanying Consolidated Financial Statements).

Interest Expense, net increased $5.3 million in 2009 compared to 2008. The increase is primarily due to the issuance of $90 million of long-term notes issued by Northern Utilities and Granite State in December 2008 to partially finance the acquisition and higher average borrowings during 2009, partially offset by increases in interest income on regulatory assets and AFUDC in 2009.

In 2008, Interest Expense, net, rose by $0.9 million compared to 2007. The acquisitions of Northern Utilities and Granite State accounted for $0.3 million of the increase. The increase associated with the acquisitions is due to $0.5 million of interest expense from the issuance of long-term notes by Northern Utilities and Granite State in December 2008, partially offset by interest income on regulatory mechanisms. In addition to the increase related to the acquisitions, the remaining $0.6 million increase in Interest Expense, net reflects higher debt outstanding and lower interest earned on regulatory assets compared to the prior period.

LIQUIDITY, COMMITMENTS AND CAPITAL REQUIREMENTS

Sources of Capital

Unitil requires capital to fund utility plant additions, working capital and other utility expenditures recovered in subsequent and future periods through regulated rates. The capital necessary to meet these requirements is derived primarily from internally-generated funds, which consist of cash flows from operating activities. The Company initially supplements internally generated funds through bank borrowings, as needed, under unsecured short-term credit facilities. Periodically, the Company replaces portions of its short-term debt with long-term financings more closely matched to the long-term nature of its utility assets. The Company's utility operations are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows.

On December 18, 2009, both Unitil Energy and Northern Utilities priced long-term financings scheduled to close in the first quarter of 2010:

(i) Unitil Energy priced $15,000,000 of First Mortgage Bonds, through a private placement marketing process to institutional investors. The First Mortgage Bonds were priced at a coupon rate of 5.24% and have a final maturity of ten years. Unitil Energy plans to use the net proceeds from this long-term financing to repay short-term debt and for general corporate purposes. Unitil Energy anticipates closing this long-term financing in March 2010.

(ii) Northern Utilities priced $25,000,000 of Senior Unsecured Notes, through a private placement marketing process to institutional investors. The Senior Unsecured Notes were priced at a coupon rate of 5.29% and have a final maturity of ten years. Northern Utilities plans to use the net proceeds from this long-term financing to repay short-term debt and for general corporate purposes. Northern Utilities anticipates closing this long-term financing in March 2010.

The Unitil Energy and Northern Utilities securities offered will not be, and have not been, registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

The Company, along with its subsidiaries, are individually and collectively members of the Unitil Cash Pool (the Cash Pool). The Cash Pool is the financing vehicle for day-to-day cash borrowing and investing. The Cash Pool allows for an efficient exchange of cash among the Company and its subsidiaries. The interest rates charged to the subsidiaries for borrowing from the Cash Pool are based on actual interest costs from lenders under the Company's revolving credit facility. At December 31, 2009 and 2008, all of the Company's subsidiaries were in compliance with the regulatory requirements to participate in the Cash Pool.

As of December 31, 2009 and 2008, the Company had $64.5 million and $35.0 million, respectively, in short-term debt outstanding through bank borrowings under its revolving credit facility. The revolving credit facility contains customary terms and conditions for credit facilities of this type, including certain financial covenants. As of December 31, 2009 and 2008, the Company was in compliance with the financial covenants contained in the revolving credit facility agreement.

The continued availability of various methods of financing, as well as the choice of a specific form of security, will depend on many factors, including, but not limited to: security market conditions; general economic climate; regulatory approvals; the ability to meet covenant issuance restrictions; the level of earnings, cash flows, financial position; and the competitive pricing offered by financing sources.

Contractual Obligations

The table below lists the Company's significant contractual obligations as of December 31, 2009.

		Payments Due by Period			
Contractual Obligations (millions) as of December 31, 2009	**Total**	**2010**	**2011-2012**	**2013-2014**	**2015 & Beyond**
Long-term Debt Obligations	$249.3	$ 0.4	$ 1.0	$ 3.0	$244.9
Interest on Long-term Debt Obligations	284.0	17.9	35.7	35.6	194.8
Gas Supply Contracts [1]	190.5	61.6	58.0	47.6	23.3
Power Supply Contract Obligations	34.7	13.0	17.8	1.8	2.1
Other	5.5	1.7	2.5	0.8	0.5
Total Contractual Cash Obligations	$764.0	$94.6	$115.0	$88.8	$465.6

(1) Primarily reflects demand charges associated with natural gas transportation contracts.

The Company and its subsidiaries have material energy supply commitments that are discussed in Note 6 to the accompanying Consolidated Financial Statements. Cash outlays for the purchase of electricity and natural gas to serve customers are subject to reconciling recovery through periodic changes in rates, with carrying charges on deferred balances. From year to year, there are likely to be timing differences associated with the cash recovery of such costs, creating under- or over-recovery situations at any point in time. Rate recovery mechanisms are typically designed to collect the under-recovered cash or refund the over-collected cash over subsequent periods of less than a year.

The Company provides limited guarantees on certain energy and natural gas storage management contracts entered into by the distribution utilities. The Company's policy is to limit these guarantees to two years or less. As of December 31, 2009, there were approximately $30.5 million of guarantees outstanding and the longest term guarantee extends through December 31, 2010. Of this amount, $8.0 million is related to Unitil's guarantee of payment for the term of the Northern Utilities' gas storage management agreement, discussed below.

Northern enters into asset management agreements under which Northern releases certain natural gas pipeline and storage assets, resells the natural gas storage inventory to an asset manager and subsequently repurchases the inventory over the course of the natural gas heating season at the same price at which it sold the natural gas inventory to the asset manager. There was $10.0 million and $31.8 million outstanding at December 31, 2009 and December 31, 2008, respectively, related to these asset management agreements.

The Company also guarantees the payment of principal, interest and other amounts payable on the notes issued by Unitil Realty and Granite State. As of December 31, 2009, the principal amount outstanding for the 8% Unitil Realty notes was $4.3 million, and the principal amount outstanding for the 7.15% Granite State notes was $10.0 million. The guarantee related to the Granite State notes will terminate if Granite State reorganizes and merges with and into Northern Utilities.

Benefit Plan Funding

The Company, along with its subsidiaries, made cash contributions to its Pension Plan in the amount of $4.2 million and $2.8 million in 2009 and 2008, respectively. The Company, along with its subsidiaries (other than Northern Utilities and Granite State), contributed $2.8 million and $2.7 million to Voluntary Employee Benefit Trusts (VEBT) in 2009 and 2008, respectively. The Company expects to contribute approximately $4.0 million and $2.8 million, respectively, to fund its Pension and PBOP Plans in 2010. The Company, along with its subsidiaries, expects to continue to make contributions to its Pension Plan and the VEBTs in future years in amounts consistent with the amounts recovered in the distribution utilities' rates for these other postretirement benefit costs. (See Note 9 to the accompanying Consolidated Financial Statements.)

Off-Balance Sheet Arrangements

The Company and its subsidiaries do not currently use, and are not dependent on the use of, off-balance sheet financing arrangements such as securitization of receivables or obtaining access to assets or cash through special purpose entities or variable interest entities. Unitil's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their vehicles, machinery and office equipment under both capital and operating lease arrangements. (See Note 4 to the accompanying Consolidated Financial Statements.)

Cash Flows

On December 1, 2008, the Company acquired Northern Utilities and Granite State. Cash flow results for 2009 include a full-year of activity for the acquired companies, while cash flow results for 2008 include only one month of activity for the acquired companies. Unitil's utility operations, taken as a whole, are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows. The tables below summarize the major sources and uses of cash (in millions) for 2009 and 2008.

(millions)	**2009**	**2008**
Cash Provided by Operating Activities	**$50.9**	$47.3

Cash Provided by Operating Activities—Cash Provided by Operating Activities was $50.9 million in 2009, an increase of $3.6 million over the comparable period in 2008. Cash flow from Net Income, adjusted for non-cash charges to depreciation, amortization and deferred taxes, was $44.5 million in 2009 compared to $36.2 million in 2008, representing an increase of $8.4 million. Working capital changes in Current Assets and Liabilities resulted in a $29.4 million source of cash in 2009, compared to a $0.7 million use of cash in 2008, representing an increased source of cash of $30.1 million primarily due to a reduction in Gas Inventory of 17.3 million and a decrease in Accrued Revenue of $12.9 million. Deferred Regulatory and Other Charges resulted in a $24.6 million use of cash, compared to a $2.6 million source of cash in

2008, primarily related to the funding in 2009 of non-recurring Deferred Regulatory Charges related to the December 2008 Ice Storm of $14.0 million. All other Operating Activities resulted in a source of cash of $1.6 million in 2009, compared to a source of cash of $9.2 million in 2008.

(millions)	2009	2008
Cash (Used in) Investing Activities	**$(65.6)**	$(238.2)

Cash (Used in) Investing Activities—Cash Used in Investing Activities was $65.6 million for 2009 compared to $238.2 million used in 2008. Northern Utilities and Granite State acquisition costs were $6.9 million in 2009 compared to $209.9 million in 2008. Capital expenditures for property, plant and equipment additions were $58.7 million in 2009 compared to $28.3 million in 2008, representing an increased use of cash of $30.4 million primarily due to the acquisition of Northern Utilities and Granite State. Cash Used in Investing Activities in 2008 included $209.9 million for the Company's acquisition of Northern Utilities and Granite State on December 1, 2008. Capital expenditures are projected to be approximately $60 million in 2010, reflecting normal electric and gas utility system additions.

(millions)	2009	2008
Cash Provided by Financing Activities	**$10.9**	$197.8

Cash Provided by Financing Activities—Cash Provided by Financing Activities was $10.9 million in 2009 compared to $197.8 million in 2008. In 2009, sources of cash from financing activities included proceeds from the issuance of common stock of $56.4 million, and uses of cash included a decrease in Gas Inventory Financing of $21.8 million, regular quarterly dividend payments on common and preferred stock of $13.2 million, the repayment of short-term debt of $9.6 million and the scheduled repayment of long-term debt of $0.4 million. Cash Provided by Financing Activities in 2008 primarily reflects the financing activity related to the Company's acquisition of Northern Utilities and Granite State on December 1, 2008.

FINANCIAL COVENANTS AND RESTRICTIONS

The agreements under which the Company's and its subsidiaries' long-term debt were issued contain various covenants and restrictions. These agreements do not contain any covenants or restrictions pertaining to the maintenance of financial ratios or the issuance of short-term debt. These agreements do contain covenants relating to, among other things, the issuance of additional long-term debt, cross-default provisions and business combinations and covenants restricting the ability to (i) pay dividends, (ii) incur indebtedness and liens, (iii) merge or consolidate with another entity or (iv) sell, lease or otherwise dispose of all or substantially all assets. (See Note 4 to the accompanying Consolidated Financial Statements.)

The long-term debt and preferred stock of Unitil, Unitil Energy, Fitchburg, Northern Utilities, Granite State and Unitil Realty are privately held, and the Company does not issue commercial paper. For these reasons, the debt securities of Unitil and its subsidiaries are not publicly rated.

The Company's revolving credit facility contains customary terms and conditions for credit facilities of this type, including certain financial covenants, including, without limitation, covenants restricting the Company's ability to incur liens, merge or consolidate with another entity or change its line of business. The revolving credit agreement also contains a covenant restricting the Company's ability to permit long-term debt to exceed 65% of capitalization at the end of each fiscal quarter.

The Company and its subsidiaries are currently in compliance with all such covenants in these debt instruments.

DIVIDENDS

Unitil's annualized common dividend was $1.38 per common share in 2009, 2008 and 2007. Unitil's dividend policy is reviewed periodically by the Board of Directors. Unitil has maintained an unbroken record of quarterly dividend payments since trading began in Unitil's common stock. At its January, 2010 meeting, the Unitil Board of Directors declared a quarterly dividend on the Company's common stock of $0.345 per share. The amount and timing of all dividend payments are subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial conditions and other factors.

LEGAL PROCEEDINGS

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. The Company believes, based upon information furnished by counsel and others, that the ultimate resolution of these claims will not have a material impact on the Company's financial position.

A putative class action complaint was filed against Fitchburg on January 7, 2009 in Worcester Superior Court in Worcester, Massachusetts, captioned Bellerman v. Fitchburg Gas and Electric Light Company. On April 1, 2009, an Amended Complaint was filed in Worcester Superior Court and served on Fitchburg. The Amended Complaint seeks an unspecified amount of damages including the cost of temporary housing and alternative fuel sources, emotional and physical pain and suffering and property damages allegedly incurred by customers in connection with the loss of electric service during the December 2008 Ice Storm. The Amended Complaint includes M.G.L. ch. 93A claims for purported unfair and deceptive trade practices related to the December 2008 Ice Storm. On September 4, 2009, the Superior Court issued its order on the Company's Motion to Dismiss the Complaint, granting it in part and denying it in part. The Company continues to believe the suit is without merit, and will defend itself vigorously.

REGULATORY MATTERS

Overview (Unitil Energy, Fitchburg, and Northern Utilities): Unitil's distribution utilities deliver electricity and/or natural gas to customers in the Company's service territory at rates established under traditional cost of service regulation. Under this regulatory structure, Unitil Energy, Fitchburg, and Northern Utilities recover the cost of providing distribution service to their customers based on a representative test year, in addition to earning a return on their capital investment in utility assets. As a result of the restructuring of the utility industry in New Hampshire, Massachusetts and Maine, most Unitil customers have the opportunity to purchase their electric or natural gas supplies from third-party suppliers. For Northern Utilities, only business customers have the opportunity to purchase their natural gas supplies from third-party suppliers at this time. Most small and medium-sized customers, however, continue to purchase such supplies through Unitil Energy, Fitchburg and Northern Utilities as the providers of basic or default service energy supply. Unitil Energy, Fitchburg and Northern Utilities purchase electricity or natural gas for basic or default service from unaffiliated wholesale suppliers and recover the actual costs of these supplies, without profit or markup, through reconciling, pass-through rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, Unitil Power and Fitchburg divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next two to four years, is $63.0 million as of December 31, 2009 including $17.7 million recorded in Current Assets as Accrued Revenue on the Company's Consolidated Balance Sheet. Unitil's distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans. See Note 6 for additional information on these filings.

Major Ice Storm—On December 11 and 12, 2008, a severe ice storm struck the New England region, causing extensive damage to electric facilities and loss of service to significant numbers of customers of several utilities. An estimated one million electric customers in the region were affected, including all of Unitil's 28,000 Massachusetts customers, and approximately half of its New Hampshire customers. Unitil was able to restore power to over 80 percent of its customers by day seven, and its final customers, including those with individual service problems, were restored in Massachusetts by December 24, 2008. As a result of the ice storm, the Company has spent approximately $23 million for the repair and replacement of electric distribution systems damaged during the storm, including $8.3 million related to capital construction and $14.6 million, including carrying charges, which has been deferred as a regulatory asset, based on orders issued by the MDPU and NHPUC, discussed below. Also, the Company expensed $3.0 million in 2009 for professional fees related to the ice storm, in addition to normal anticipated expenditures related to emergency storm preparedness. The Company does not believe these storm restoration expenditures and the timing of cost recovery will have a material adverse impact on the Company's financial condition or results of operations. However, if it were ultimately determined that certain of these costs were not recoverable in rates, and/or the Company were required to incur additional costs to defend itself, there may be a significant impact on the Company's results of operations in future periods.

On January 7, 2009, the MDPU opened an investigation into the preparation and response of the Massachusetts electric distribution companies to the December 2008 Ice Storm. Evidentiary hearings before the MDPU concerning Fitchburg's storm response were held in May, 2009. On November 2, 2009, the MDPU issued its order with respect to its investigation, finding that Fitchburg's preparation for, and response to, the December 2008 Ice Storm constituted a failure of the Company to meet its public service obligation to provide safe and reliable service. As a result, the MDPU ordered a comprehensive independent management audit of Fitchburg's management practices to address: Unitil's strategic planning processes; its staffing decisions to the extent to which they affect Fitchburg; its management and control of Fitchburg, including resource allocation decisions made among Unitil's three subsidiary companies; and customer relations. The order also directed Fitchburg to implement a series of operational and capital improvements which had been identified and recommended through the Company's self-assessment review. Finally, the MDPU noted that the costs incurred by Fitchburg for the December 2008 Ice Storm would be subject to review in Fitchburg's next electric rate case, along with Fitchburg's rate of return.

On July 28, 2009, Fitchburg filed with the MDPU a petition for approval to defer and record as a regulatory asset approximately $11.5 million of costs associated with the repair of its electric distribution system from damage caused by the December 2008 Ice Storm for future recovery in rates. On December 30, 2009, the MDPU approved the request. The order of approval stated that it made no findings as to whether the subject expenses were reasonable or whether they can be recovered from ratepayers, and that the MDPU will consider the subsequent ratemaking treatment of the expense as part of Fitchburg's next rate case. Fitchburg anticipates filing its next rate case during the second quarter of 2010. As of December 31, 2009, Fitchburg has deferred approximately $12.3 million of costs associated with the repair of its electric distribution system from damage caused by the December 2008 Ice Storm for future recovery in rates.

On August 26, 2009, Unitil Energy filed a petition with the NHPUC requesting an accounting order authorizing Unitil Energy to record as a regulatory asset approximately $2 million in expenses associated with network damage from the December 2008 Ice Storm until such time as the Commission issues a final order in Unitil Energy's next base rate case. On November 9, 2009, the NHPUC granted the requested accounting order, clarifying that such issues as the appropriate amount of the storm related expenses to be recovered, the timing and manner of recovery, and what, if any, return should be applied to the unrecovered balance are issues that will be deferred to Unitil Energy's next rate case. Unitil Energy anticipates filing its next rate case during the second quarter of 2010. As of December 31, 2009, Unitil Energy has deferred approximately $2.3 million of costs associated with the repair of its electric distribution system from damage caused by the December 2008 Ice Storm for future recovery in rates.

On December 3, 2009, the NHPUC issued its final report regarding its 'after action' review of the December 2008 Ice Storm. The after action review was a non-docketed investigation by the NHPUC of utility emergency preparedness and response. The report stated that the NHPUC will commence an adjudicative proceeding to examine the reasonableness of the timing of Unitil's response to the December 2008 Ice Storm, the priorities of its restorations and the allocation of its resources in New Hampshire and Massachusetts. On January 8, 2010, the NHPUC opened a docket to consider Unitil Energy's response to the December 2008 Ice Storm, including the timing of its response, its restoration priorities and strategies and the procurement and allocation of its resources in New Hampshire and Massachusetts. This matter remains pending.

Unitil Energy: On May 14, 2007, the NHPUC issued an order opening an investigation into the merits of instituting appropriate rate mechanisms, such as revenue decoupling, which would have the effect of removing obstacles to, and encouraging investment in, energy efficiency. On January 16, 2009, the NHPUC issued its decision in this matter, concluding that such rate mechanisms should only be implemented on a company-by-company basis in the context of an examination of company-specific costs and revenues, service territory, customer mix and rate base investment. On March 23, 2009, the NHPUC denied a Motion for Rehearing of this matter.

In July 2008, the State of New Hampshire enacted legislation that allows electric utilities to make investments in distributed energy resources, including energy efficiency and demand reduction technologies, as well as clean cogeneration and renewable generation. On August 5, 2009, Unitil Energy filed a plan for approval of investment in and rate recovery for Distributed Energy Resources.

Fitchburg—Electric Operations: On November 25, 2009, Fitchburg submitted its annual reconciliation of costs and revenues for Transition and Transmission under its restructuring plan (the Annual Reconciliation Filing). In addition, the Standard Offer Service and Default Service Costs incurred during the seven year Standard Offer Service period that ended February 28, 2005 have been combined and recovery is proposed through a Transition Charge Surcharge of $0.004 per kWh. Changes to the Pension / PBOP Adjustment and Residential Assistance Adjustment Factor were proposed in other proceedings. The rates were approved effective January 1, 2010, subject to reconciliation pending investigation by the MDPU. This matter remains pending. A final order on Fitchburg's 2008 Annual Reconciliation Filing also remains pending.

On November 12, 2009, the Governor of Massachusetts signed House Bill 4329. The bill (i) requires the MDPU to establish regulations for utilities to respond to emergencies, (ii) requires utilities to file with the MDPU annual emergency response plans, (iii) authorizes the MDPU to impose penalties for a utility's failure to comply with the MDPU's regulations, and (iv) allows the chair of the MDPU to issue operational and management directives during an emergency. The bill also authorizes the Massachusetts Attorney General to bring a court action for receivership of a small investor-owned utility where an emergency exists and the utility has materially violated the MDPU's standards for responding to emergencies. On February 2, 2010, the MDPU issued an order adopting the items required by House Bill 4329.

Fitchburg—Gas Operations: Fitchburg provides natural gas delivery service to its customers on a firm or interruptible basis under unbundled distribution rates approved by the MDPU. Its current distribution rates were approved by the MDPU in 2007. Fitchburg's customers may purchase natural gas supplies from third-party vendors or purchase their natural gas from Fitchburg under regulated rates and tariffs. Fitchburg collects its natural gas supply costs through a seasonal reconciling Cost of Gas Adjustment Clause and recovers other related costs through a reconciling Local Distribution Adjustment Clause.

On March 12, 2009, the MDPU opened an investigation into Fitchburg's gas procurement practices. On November 2, 2009 the MDPU issued an order finding that Fitchburg engaged in certain price stabilization practices for the 2007 / 2008 and 2008 / 2009 heating seasons without the MDPU's prior approval and that Fitchburg's gas purchasing practices were imprudent. As a result, the MDPU required Fitchburg to refund $4.6 million of natural gas costs, plus an appropriate carrying charge based on the prime lending rate, to its gas customers. Fitchburg recorded a pre-tax charge of $4.9 million in the fourth quarter of 2009 based on the MDPU's order. On November 30, 2009, the MDPU approved Fitchburg's proposal to amortize its refund of natural gas costs to customers over a five-year period. Fitchburg has appealed the gas procurement Order to the Massachusetts Supreme Judicial Court. Fitchburg's assessment is that pre-approval from the MDPU for gas purchases made to stabilize prices for customers was not required and that its gas-procurement practices were consistent with those of other Massachusetts natural gas distribution companies and all relevant MDPU rules and orders and Massachusetts law. In addition, Fitchburg is able to demonstrate that its gas purchasing practices were previously disclosed to the MDPU at public hearings and in required filings with the MDPU and the Massachusetts Office of the Attorney General. This appeal remains pending before the Massachusetts Supreme Judicial Court. Immediately after the MDPU opened its investigation of this matter in March 2009, Fitchburg ceased making the gas procurement purchases in question and filed a request with the MDPU for approval of a gas procurement plan for future gas purchases. This matter remains pending before the MDPU.

During the summer of 2009, Fitchburg operated its gas system entirely on local production from LNG for approximately three months due to construction on the lateral from Tennessee Gas Pipeline, which is the sole source of pipeline gas to Fitchburg. During this time Fitchburg provided gas LNG supply to all firm sales customers and also to the retail marketers for delivery to firm customers who have contracted for third-party supply. Fitchburg's management of this project was reviewed by the MDPU during its last Integrated Resource Plan proceeding, before the shutdown occurred. In its order, the MDPU stated it would investigate the costs associated with the shutdown in Fitchburg's March 2010 Cost of Gas Adjustment Clause filing when its actual costs will be reconciled with its projected costs.

Fitchburg—Other: On June 22, 2007, the MDPU opened an inquiry into revenue decoupling for gas and electric distribution utilities, generally defined as a ratemaking mechanism designed to eliminate or reduce the dependence of a utility's distribution revenues on sales. Revenue decoupling is intended to remove the disincentive a utility has to promote efforts to reduce energy consumption by its customers or to facilitate installation of distributed generation to displace electricity delivered by the utility. On July 16, 2008, the MDPU issued an order establishing a comprehensive plan for decoupling to be adopted by gas and electric distribution utilities on a going-forward basis, including company-specific rate cases. Lost base revenue recovery associated with incremental energy efficiency savings will be allowed through 2012 consistent with the MDPU's expectation that, with limited exceptions, distribution companies will be operating under decoupling plans by year-end 2012.

On February 11, 2009, the MA Supreme Judicial Court (SJC) issued its decision in the Attorney General's (AG) appeal of the MDPU orders relating to Fitchburg's recovery of bad debt expense. The SJC agreed with the AG that the MDPU was required to hold hearings regarding changes in Fitchburg's tariff and rates, and on that basis vacated the MDPU orders. The Court, however, declined to rule on an appropriate remedy, and remanded the cases back to the MDPU for consideration of that issue. This matter remains pending before the MDPU.

On July 2, 2008, the Governor of Massachusetts singed into law "The Green Communities Act" (the GC Act), energy policy legislation designed to substantially increase energy efficiency and the development of renewable energy resources in Massachusetts. The GC Act provides for utilities to recover in rates the incremental costs associated with its various mandated programs. Several regulatory proceedings have been initiated to implement various provisions of the GC Act, including provisions for each distribution company to file enhanced three-year energy efficiency investment plans, plans to establish smart grid pilot programs, proposals to purchase long-term contracts for renewable energy, and special tariffs to allow the net metering of customer-owned renewable generation. These matters, under review in separately designated dockets, remain pending, except for net metering tariffs which were approved by the MDPU effective December 1, 2009.

Northern Utilities: On December 1, 2008 Unitil completed the purchase of Northern Utilities from Bay State and Granite State from NiSource. Unopposed settlement agreements resolving all outstanding issues and recommending approval of the acquisition were approved by the NHPUC on October 10, 2008, and by the MPUC on November 5, 2008. Pursuant to its expanded authority over holding company mergers under the GC Act, the MDPU also reviewed the transaction and issued its approval on November 18, 2008.

The New Hampshire and Maine settlement agreements included the following provisions with respect to the accounting and rates of Northern Utilities:

- approval of Northern Utilities' accounting deferral and 10-year amortization of transaction costs and transition costs resulting from the Company's acquisition of Northern Utilities and the Company's agreement not to seek recovery of these costs, or the transaction or transition costs of any other utility subsidiary, in rates;
- agreement that synergy savings resulting from the acquisition of Northern Utilities will be retained by the Company until the next base rate change and then will flow to customers;
- agreement not to request a base rate change for Northern Utilities before November 1, 2010 unless (i) Northern Utilities' projected annual revenues are more than 8% below the level of total 2007 distribution revenues or (ii) the MPUC or NHPUC, as applicable, approves a plan to subject Granite State's rates to state regulation;

- agreement to allow Northern Utilities to recover prudently incurred integration costs for capitalized expenditures to build or upgrade systems or facilities required to independently operate Northern Utilities;
- agreement not to seek recovery in Northern Utilities' rates of any acquisition premium resulting from Unitil's acquisition of Northern Utilities and that any acquisition adjustment (positive or negative) shall be accounted for below the line for ratemaking purposes over a 10-year period;
- agreement to hold Northern Utilities' customers harmless for the elimination of historical accumulated deferred income tax liabilities resulting from its Internal Revenue Service Section 338(h)(10) election;
- agreement to use an imputed weighted cost of debt for ratemaking purposes until Northern Utilities' existing debt instruments would have matured; and
- agreement not to change Northern Utilities' existing depreciation rates for its Maine division until approved in the next general rate case.

The settlement agreements contained the following commitments related to Granite State:

- agreement to work collaboratively with the parties to the settlements to design and to conduct a comprehensive study of the issues and costs for modification of the physical, operational, regulatory, and corporate structure necessary for state regulation of Granite State and to provide a report within one year of the closing; and
- authorization for Northern Utilities to execute a firm service contract with Granite State for 100,000 Dekatherms (Dth) of capacity at Granite State's current recourse rate of $1.6666 / Dth for the period November 1, 2008 through October 31, 2010.

On November 21, 2008, the MPUC issued an order approving a settlement agreement resolving a number of Notices of Probable Violation (NOPVs) of certain safety related procedures and rules by Northern Utilities. Under the Settlement, Northern Utilities will incur total expenditures of approximately $3.8 million for safety related improvements to Northern's distribution system to ensure compliance with the relevant state and federal gas safety laws, for which no rate recovery will be allowed. These compliance costs were accrued by Northern Utilities prior to the acquisition date and the remaining amount on the Company's balance sheet at December 31, 2009 was $2.3 million.

On June 27, 2008, the MPUC opened an investigation of Northern Utilities' cast iron pipe replacement activities and the benefits of an accelerated replacement program for cast iron distribution pipe remaining in the Portland and Westbrook service areas. Northern Utilities anticipates filing testimony and a proposal for a replacement program with the MPUC by mid-February of 2010, and that proceedings will continue on this matter during the second and third quarters 2010.

See Note 6 to the accompanying Consolidated Financial Statements for additional information on Regulatory Matters.

ENVIRONMENTAL MATTERS

The Company's past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. The Company believes it is in compliance with applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2009, there were no material losses reasonably likely to be incurred in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Fitchburg's Manufactured Gas Plant Site—Fitchburg continues to work with environmental regulatory agencies to identify and assess environmental issues at the former MGP site at Sawyer Passway, located in Fitchburg, Massachusetts. Fitchburg has proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection, which allows

Fitchburg to work towards temporary closure of the site. A status of temporary closure requires Fitchburg to monitor the site until a feasible permanent remediation alternative can be developed and completed.

Fitchburg recovers the environmental response costs incurred at this former MGP site not recovered by insurance or other means in gas rates pursuant to terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, Fitchburg is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs. In addition, Fitchburg has filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. Any recovery that Fitchburg receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between Fitchburg and its gas customers.

Northern Utilities' Manufactured Gas Plant Sites—Northern Utilities has an extensive program to identify, investigate and remediate former MGP sites that were operated from the mid 1800's through the mid 1900's. In New Hampshire, MGP sites were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. This program has also documented the presence of MGP sites in Lewiston and Portland, Maine and a former MGP disposal site in Scarborough, Maine. Northern Utilities has worked with the environmental regulatory agencies in both New Hampshire and Maine to address environmental concerns with these sites.

The NHPUC and MPUC have approved the recovery of MGP environmental costs. For Northern Utilities' New Hampshire division, the NHPUC approved the recovery of MGP environmental costs over a seven-year amortization period. Northern Utilities believes material future costs will be recovered. For Northern Utilities' Maine division, the MPUC authorized the recovery of environmental remediation costs over a rolling five-year amortization schedule.

See Note 6 to the accompanying Consolidated Financial Statements for additional information on Environmental Matters.

EMPLOYEES AND EMPLOYEE RELATIONS

As of December 31, 2009, the Company and its subsidiaries had 431 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

As of December 31, 2009, 156 of the Company's employees were represented by labor unions. These employees are covered by collective bargaining agreements. Two agreements expire on May 31, 2010, one agreement expires on June 5, 2010 and one agreement expires on March 31, 2012. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. The Company expects to successfully negotiate new agreements prior to their expiration dates.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company's financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In making those estimates and assumptions, the Company is sometimes required to make difficult, subjective and/or complex judgments about the impact of matters that are inherently uncertain and for which different estimates that could reasonably have been used could have resulted in material differences in its financial statements. If actual results were to differ significantly from those estimates, assumptions and judgment, the financial position of the Company could be materially affected and the results of operations of the Company could be materially different than reported. The following is a summary of the Company's most critical accounting policies, which are defined as those policies where judgments or uncertainties could materially affect the application of those policies. For a complete discussion of the Company's significant accounting policies, refer to the financial statements and Note 1: Summary of Significant Accounting Policies.

Regulatory Accounting—The Company's principal business is the distribution of electricity and natural gas by the three distribution utilities: Unitil Energy, Fitchburg and Northern Utilities. Unitil Energy and Fitchburg are subject to regulation by the FERC. Fitchburg is also regulated by the MDPU, Unitil Energy is regulated by the NHPUC and Northern Utilities is regulated by the MPUC and NHPUC. Granite State, the Company's natural gas transmission pipeline, is regulated by the FERC. Accordingly, the Company uses the Regulated Operations guidance as set forth in the FASB Codification. In accordance with the FASB Codification, the Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

The FASB Codification specifies the economic effects that result from the cause and effect relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or "regulatory assets". If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or "regulatory liabilities".

The Company's principal regulatory assets and liabilities are detailed on the Company's Consolidated Balance Sheet and a summary of the Company's Regulatory Assets is provided in Note 1 thereto. The Company receives a return on investment on its regulated assets for which a cash outflow has been made. Regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company's consolidated financial statements.

The Company believes it is probable that its regulated distribution and transmission utilities will recover their investments in long-lived assets, including regulatory assets. If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of the FASB Codification topic on Regulated Operations. If unable to continue to apply the FASB Codification provisions for Regulated Operations, the Company would be required to apply the provisions for the Discontinuation of Rate-Regulated Accounting included in the FASB Codification. In the Company's opinion, its regulated operations will be subject to the FASB Codification provisions for Regulated Operations for the foreseeable future.

Utility Revenue Recognition—Regulated utility revenues are based on rates and charges approved by federal and state regulatory commissions. Revenues related to the sale of electric and gas service are recorded when service is rendered or energy is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on estimated customer usage by class and applicable customer rates.

Allowance for Doubtful Accounts—The Company recognizes a provision for doubtful accounts each month based upon the Company's experience in collecting electric and gas utility service accounts receivable in prior years. At the end of each month, an analysis of the delinquent receivables is performed which takes into account an assumption about the cash recovery of delinquent receivables. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company's distribution utilities are authorized by regulators to recover the costs of their energy commodity portion of bad debts through rate mechanisms. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis, including expected fuel assistance payments from governmental authorities and the level of customers enrolling in payment plans with the Company. It has been the Company's experience that the assumptions it has used in evaluating the adequacy of the Allowance for Doubtful Accounts have proven to be reasonably accurate.

Retirement Benefit Obligations—The Company sponsors the Unitil Corporation Retirement Plan (Pension Plan), which is a defined benefit pension plan covering substantially all of its employees. The Company also sponsors an unfunded retirement plan, the Unitil Corporation Supplemental Executive Retirement Plan (SERP), covering certain executives of the Company and an employee 401(k) savings plan. Additionally, the Company sponsors the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan), primarily to provide health care and life insurance benefits to retired employees.

The FASB Codification requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas rates.

The Company's reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. The Company has made critical estimates related to actuarial assumptions, including assumptions of expected returns on plan assets, future compensation, health care cost trends, and appropriate discount rates. The Company's RBO are affected by actual employee demographics, the level of contributions made to the plans, earnings on plan assets, and health care cost trends. Changes made to the provisions of these plans may also affect current and future costs.

The Company's RBO may also be significantly affected by changes in key actuarial assumptions, including, anticipated rates of return on plan assets and the discount rates used in determining the Company's RBO. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status and net periodic benefit costs could have a material impact on the Company's financial statements. The discount rate assumptions used in determining retirement plan costs and retirement plan obligations are based on a market average of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. For the years ended December 31, 2009 and 2008, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $300,000 and $200,000, respectively, in the Net Periodic Benefit Cost for the Pension Plan. For the years ended December 31, 2009 and 2008, a 1.0% increase in the assumption of health care cost trend rates would have resulted in increases in the Net Periodic Benefit Cost for the PBOP Plan of $735,000 and $675,000, respectively. Similarly, a 1.0% decrease in the assumption of health care cost trend rates for those same time periods would have resulted in decreases in the Net Periodic Benefit Cost for the PBOP Plan of $576,000 and $531,000, respectively. (See Note 9 to the accompanying Consolidated Financial Statements).

Income Taxes—Provisions for income taxes are calculated in each of the jurisdictions in which the Company operates for each period for which a statement of earnings is presented. This process involves estimating the Company's current tax liabilities as well as assessing temporary and permanent differences resulting from the timing of the deductions of expenses and recognition of taxable income for tax and book accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheets. The Company accounts for income tax assets, liabilities and expenses in accordance with the FASB Codification guidance on Income Taxes.

Depreciation—Depreciation expense is calculated on a group straight-line basis based on the useful lives of assets and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company's fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company's consolidated financial statements.

Commitments and Contingencies—The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with the FASB Codification as it applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2009, the Company is not aware of any material commitments or contingencies other than those disclosed in the Significant Contractual Obligations table in the Contractual Obligations section above and the Commitments and Contingencies footnote to the Company's consolidated financial statements below.

Refer to “Recently Issued Accounting Pronouncements” in Note 1 of the Notes of Consolidated Financial Statements for information regarding recently issued accounting standards.

For further information regarding these types of activities, see Note 1, “Summary of Significant Accounting Policies,” Note 8, “Income Taxes,” Note 5, “Energy Supply,” Note 9, “Benefit Plans,” and Note 6, “Commitment and Contingencies,” to the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Please also refer to Item 1A. “Risk Factors.”

INTEREST RATE RISK

As discussed above, Unitil meets its external financing needs by issuing short-term and long-term debt. The majority of debt outstanding represents long-term notes bearing fixed rates of interest. Changes in market interest rates do not affect interest expense resulting from these outstanding long-term debt securities. However, the Company periodically repays its short-term debt borrowings through the issuance of new long-term debt securities. Changes in market interest rates may affect the interest rate and corresponding interest expense on any new issuances of long-term debt securities. In addition, short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease interest expense in future periods. For example, if the average amount of short-term debt outstanding was $25 million for the period of one year, a change in interest rates of 1% would result in a change in annual interest expense of approximately $250,000. The average interest rate on short-term borrowings was 3.4%, 3.8%, and 5.6% during 2009, 2008, and 2007, respectively.

MARKET RISK

Although Unitil’s three distribution utilities are subject to commodity price risk as part of their traditional operations, the current regulatory framework within which these companies operate allows for full collection of electric power and natural gas supply costs in rates on a pass-through basis. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, as discussed above and below in Regulatory Matters, the Company has divested its commodity-related contracts and therefore, further reduced its exposure to commodity risk.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders of Unitil Corporation:

We have audited the accompanying consolidated balance sheets of Unitil Corporation and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of earnings, cash flows and changes in common stock equity for each of the years ended December 31, 2009, 2008 and 2007. We also have audited Unitil Corporation and subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unitil Corporation and subsidiaries as of December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Unitil Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in (COSO).

Caturano and Company, P.C.

Boston, Massachusetts
February 10, 2010

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CONSOLIDATED STATEMENTS OF EARNINGS

(Millions, except common shares and per share data)

Year Ended December 31,	2009	2008	2007
Operating Revenues:			
Gas	**$152.8**	$ 56.9	$ 34.2
Electric	**209.9**	227.5	225.0
Other	**4.3**	3.8	3.7
Total Operating Revenues	**367.0**	288.2	262.9
Operating Expenses:			
Purchased Gas	**96.4**	37.3	21.3
Purchased Electricity	**151.6**	170.1	165.4
Operation and Maintenance	**44.7**	27.5	26.2
Conservation & Load Management	**5.0**	2.8	3.6
Depreciation and Amortization	**27.4**	19.1	17.8
Provisions for Taxes:			
Local Property and Other	**10.6**	6.5	5.6
Federal and State Income	**5.2**	4.4	4.5
Total Operating Expenses	**340.9**	267.7	244.4
Operating Income	**26.1**	20.5	18.5
Other Non-Operating Expenses	**0.3**	0.3	0.2
Income Before Interest Expense	**25.8**	20.2	18.3
Interest Expense, net	**15.8**	10.5	9.6
Net Income	**10.0**	9.7	8.7
Less Dividends on Preferred Stock	**0.1**	0.1	0.1
Earnings Applicable to Common Shareholders	**$ 9.9**	$ 9.6	$ 8.6
Average Common Shares Outstanding (000's)—Basic	**9,647**	5,830	5,659
Average Common Shares Outstanding (000's)—Diluted	**9,647**	5,830	5,672
Earnings per Common Share—Basic and Diluted	**$ 1.03**	$ 1.65	$ 1.52

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

CONSOLIDATED BALANCE SHEETS *(Millions)*

ASSETS

December 31,	2009	2008
Utility Plant:		
Electric	**$302.3**	$289.0
Gas	**325.5**	304.2
Common	**28.9**	30.5
Construction Work in Progress	**26.0**	17.7
Utility Plant	**682.7**	641.4
Less: Accumulated Depreciation	**233.0**	218.6
Net Utility Plant	**449.7**	422.8
Current Assets:		
Cash	**7.7**	11.5
Accounts Receivable—(Net of Allowance for Doubtful Accounts of $2.5 and $3.0)	**33.5**	39.7
Accrued Revenue	**44.0**	56.9
Gas Inventory	**14.3**	31.6
Material and Supplies	**2.6**	2.7
Prepayments and Other	**4.7**	5.9
Total Current Assets	**106.8**	148.3
Noncurrent Assets:		
Regulatory Assets	**144.5**	146.2
Other Noncurrent Assets	**24.2**	15.9
Total Noncurrent Assets	**168.7**	162.1
TOTAL	**$725.2**	$733.2

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

CONSOLIDATED BALANCE SHEETS ***(cont.)*** *(Millions)*

CAPITALIZATION AND LIABILITIES

December 31,	2009	2008
Capitalization:		
Common Stock Equity	**$193.1**	$139.5
Preferred Stock	**2.0**	2.0
Long-Term Debt, Less Current Portion	**248.9**	249.3
Total Capitalization	**444.0**	390.8
Current Liabilities:		
Long-Term Debt, Current Portion	**0.4**	0.4
Accounts Payable	**25.1**	28.5
Short-Term Debt	**64.5**	74.1
Energy Supply Contract Obligations	**23.1**	49.8
Other Current Liabilities	**16.6**	33.8
Total Current Liabilities	**129.7**	186.6
Deferred Income Taxes	**39.8**	31.1
Noncurrent Liabilities:		
Energy Supply Contract Obligations	**21.7**	34.6
Retirement Benefit Obligations	**65.5**	67.4
Environmental Obligations	**14.3**	12.3
Other Noncurrent Liabilities	**10.2**	10.4
Total Noncurrent Liabilities	**111.7**	124.7
TOTAL	**$725.2**	$733.2

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

CONSOLIDATED STATEMENTS OF CASH FLOWS *(Millions)*

Year Ended December 31,	2009	2008	2007
Operating Activities:			
Net Income	**$ 10.0**	$ 9.7	$ 8.7
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:			
Depreciation and Amortization	**27.4**	19.1	17.8
Deferred Taxes Provision	**7.1**	7.4	(0.9)
Changes in Current Assets and Liabilities:			
Accounts Receivable	**6.2**	(6.4)	(2.4)
Accrued Revenue	**12.9**	(10.3)	1.1
Gas Inventory	**17.3**	—	—
Accounts Payable	**(3.4)**	11.4	(2.2)
All Other Current Assets and Liabilities	**(3.6)**	4.6	(1.1)
Deferred Regulatory and Other Charges	**(24.6)**	2.6	3.5
Other, net	**1.6**	9.2	2.3
Cash Provided by Operating Activities	**50.9**	47.3	26.8
Investing Activities:			
Property, Plant and Equipment Additions	**(58.7)**	(28.3)	(32.5)
Acquisitions, net (See Note 2)	**(6.9)**	(209.9)	—
Cash (Used In) Investing Activities	**(65.6)**	(238.2)	(32.5)
Financing Activities:			
Proceeds from (Repayment of) Short-Term Debt	**(9.6)**	55.3	(7.2)
Proceeds from Issuance of Long-Term Debt	**—**	90.0	20.0
Repayment of Long-Term Debt	**(0.4)**	(0.4)	(0.3)
Net Increase (Decrease) in Gas Inventory Financing	**(21.8)**	24.0	—
Dividends Paid	**(13.2)**	(8.1)	(7.9)
Proceeds from Issuance of Common Stock	**56.4**	37.4	1.5
Other, net	**(0.5)**	(0.4)	(0.4)
Cash Provided by Financing Activities	**10.9**	197.8	5.7
Net Increase (Decrease) in Cash	**(3.8)**	6.9	—
Cash at Beginning of Year	**11.5**	4.6	4.6
Cash at End of Year	**$ 7.7**	$ 11.5	$ 4.6
Supplemental Information:			
Interest Paid	**$ 19.3**	$ 12.5	$ 12.2
Income Taxes Paid (Refunded)	**$ (3.8)**	$ (0.5)	$ 5.3

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

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

(Millions)

	Common Equity	Retained Earnings	Total
Balance at January 1, 2007	$ 63.5	$ 34.3	**$ 97.8**
Net Income for 2007		8.7	**8.7**
Dividends		(7.9)	**(7.9)**
Shares Issued Under Stock Plans	0.8		**0.8**
Issuance of 38,303 Common Shares	1.0		**1.0**
Balance at December 31, 2007	65.3	35.1	**100.4**
Net Income for 2008		9.7	**9.7**
Dividends		(8.0)	**(8.0)**
Shares Issued Under Stock Plans	0.4		**0.4**
Issuance of 32,754 Common Shares	0.8		**0.8**
Issuance of 2,000,000 Common Shares (See Note 3)	36.2		**36.2**
Balance at December 31, 2008	102.7	36.8	**139.5**
Net Income for 2009		10.0	**10.0**
Dividends		(13.2)	**(13.2)**
Shares Issued Under Stock Plans	0.4		**0.4**
Issuance of 43,615 Common Shares	0.9		**0.9**
Issuance of 2,970,000 Common Shares (See Note 3)	55.5		**55.5**
Balance at December 31, 2009	**$159.5**	**$ 33.6**	**$193.1**

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

Note 1: Summary of Significant Accounting Policies

Nature of Operations—Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005. The following companies are wholly-owned subsidiaries of Unitil: Unitil Energy Systems, Inc. (Unitil Energy), Fitchburg Gas and Electric Light Company (Fitchburg), Northern Utilities, Inc. (Northern Utilities), Granite State Gas Transmission, Inc. (Granite State), Unitil Power Corp. (Unitil Power), Unitil Realty Corp. (Unitil Realty), Unitil Service Corp. (Unitil Service) and its non-regulated business unit Unitil Resources, Inc. (Unitil Resources). Usource, Inc. and Usource L.L.C. are subsidiaries of Unitil Resources.

On December 1, 2008, the Company purchased: (i) all of the outstanding capital stock of Northern Utilities, a natural gas distribution utility serving customers in Maine and New Hampshire, from Bay State Gas Company (Bay State) and (ii) all of the outstanding capital stock of Granite State, an interstate gas transmission pipeline company primarily serving the needs of Northern Utilities, from NiSource, Inc. (NiSource) pursuant to the Stock Purchase Agreement dated as of February 15, 2008 by and among NiSource, Bay State, and Unitil (the Acquisitions). Bay State is a wholly owned subsidiary of NiSource.

As a result of the acquisitions of Northern Utilities and Granite State on December 1, 2008, consolidated results for the Company in the current period may not be directly comparable to prior period results until such time as the acquisitions are fully reflected in both reporting periods. In particular, the Company expects that consolidated results of operations in future reporting periods will reflect to a greater degree the seasonal nature of natural gas sales by the acquired operating utilities. Accordingly, the Company expects that as a result of the acquisitions, consolidated results of operations will be positively affected during the first and fourth quarters, and negatively affected during the second and third quarters of future reporting years.

Unitil's principal business is the local distribution of electricity in the southeastern seacoast and capital city areas of New Hampshire and the greater Fitchburg area of north central Massachusetts and the local distribution of natural gas in southeastern New Hampshire, portions of southern Maine to the Lewiston-Auburn area and in the greater Fitchburg area of north central Massachusetts. Unitil has three distribution utility subsidiaries, Unitil Energy, which operates in New Hampshire, Fitchburg, which operates in Massachusetts and Northern Utilities, which operates in New Hampshire and Maine (collectively referred to as the "distribution utilities").

Granite State is an interstate natural gas transmission pipeline company, operating 87 miles of underground gas transmission pipeline primarily located in Maine, New Hampshire and Massachusetts. Granite State provides Northern Utilities with interconnection to three major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and, to a lesser extent, third-party marketers.

A fifth utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for Unitil Energy. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of Unitil Energy on May 1, 2003 and divested of its long-term power supply contracts through the sale of the entitlements to the electricity associated with various electric power supply contracts it had acquired to serve Unitil Energy's customers.

Unitil also has three other wholly-owned subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology, energy management and management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company's corporate office in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Resources is the Company's wholly owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to large commercial and industrial customers in the northeastern United States.

Basis of Presentation

Principles of Consolidation—The Company's consolidated financial statements include the accounts of Unitil and all of its wholly owned subsidiaries and all intercompany transactions are eliminated in consolidation. The operations of Northern Utilities and Granite State are included in the Company's consolidated financial statements from December 1, 2008 through December 31, 2009.

Regulatory Accounting—The Company's principal business is the distribution of electricity and natural gas by the three distribution utilities: Unitil Energy, Fitchburg and Northern Utilities. Unitil Energy and Fitchburg are subject to regulation by the FERC. Fitchburg is also regulated by the MDPU, Unitil Energy is regulated by the NHPUC and Northern Utilities is regulated by the MPUC and NHPUC. Granite State, the Company's natural gas transmission pipeline, is regulated by the FERC. Accordingly, the Company uses the Regulated Operations guidance as set forth in the FASB Codification. The Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

	December 31,	
Regulatory Assets consist of the following (millions)	2009	2008
Energy Supply Contract Obligations	**$ 34.7**	$ 52.7
Deferred Restructuring Costs	**28.3**	27.8
Generation-related Assets	**—**	0.8
Subtotal—Restructuring Related Items	**63.0**	81.3
Retirement Benefit Obligations	**43.7**	45.5
Income Taxes	**14.5**	16.0
Environmental Obligations	**22.7**	21.6
Deferred Storm Charges	**14.6**	—
Other	**7.9**	10.1
Total Regulatory Assets	**$166.4**	$174.5
Less: Current Portion of Regulatory Assets [(1)]	**21.9**	28.3
Regulatory Assets—noncurrent	**$144.5**	$146.2

(1) Reflects amounts included in Accrued Revenue on the Company's Consolidated Balance Sheets.

The Company receives a return on investment on its regulated assets for which a cash outflow has been made. Regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company's consolidated financial statements. The Company believes it is probable that its regulated distribution and transmission utilities will recover their investments in long-lived assets, including regulatory assets. If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of the FASB Codification topic on Regulated Operations. If unable to continue to apply the FASB Codification provisions for Regulated Operations, the Company would be required to apply the provisions for the Discontinuation of Rate-Regulated Accounting included in the FASB Codification. In the Company's opinion, its regulated operations will be subject to the FASB Codification provisions for Regulated Operations for the foreseeable future.

Cash—Cash includes all cash and cash equivalents to which the Company has legal title. Cash equivalents include short-term investments with original maturities of three months or less and interest bearing deposits. The Company's cash and cash equivalents are held at financial institutions and at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. Under the Independent System Operator—New England (ISO-NE) Financial Assurance Policy (Policy), Unitil's affiliates Unitil Energy, Fitchburg and Unitil Power are required to provide assurance of their ability to satisfy their obligations to ISO-NE. Under this Policy, Unitil's affiliates provide cash deposits covering approximately 2-1/2 months of outstanding obligations. On December 31, 2009 and 2008, the Unitil affiliates had deposited $4.5 million and $3.7 million, respectively to satisfy their ISO-NE obligations. In addition, Northern Utilities has cash margin deposits to satisfy requirements for its natural gas hedging program. On December 31, 2009 and 2008, there was $2.9 million and $7.0 million, respectively, deposited for this purpose.

Goodwill and Intangible Assets—As a result of the acquisitions of Northern Utilities and Granite State, the Company recognized a bargain purchase adjustment as a reduction to Utility Plant, to be amortized over a ten year period, beginning with the date of the Acquisitions, as authorized by regulators. (See Note 2).

Off-Balance Sheet Arrangements—As of December 31, 2009, the Company does not have any significant arrangements that would be classified as Off-Balance Sheet Arrangements. In the ordinary course of business, the Company does contract for certain office equipment, vehicles and other equipment under operating leases (See Note 4).

Investments and Trading Activities—The Company invests in U.S. Treasuries and short-term investments which traditionally have very little fluctuation in fair value. The Company does not engage in investing or trading activities involving non-exchange traded contracts or other instruments where a periodic analysis of fair value would be required for accounting purposes.

Derivatives—The Company has a regulatory approved hedging program for Northern Utilities designed to fix a portion of its gas supply costs for the coming year of service. In order to fix these costs, the Company purchases New York Mercantile Exchange (NYMEX) futures that correspond to the associated delivery month. Any gains or losses on the fair value of these derivatives are passed through to ratepayers directly through a regulatory commission approved recovery mechanism. The fair value of these derivatives is determined using Level 2 inputs (valuations based on quoted prices available in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are directly observable, and inputs derived principally from market data), specifically based on the NYMEX closing prices for outstanding contracts as of the balance sheet date. As a result of the ratemaking process, the Company records gains and losses as regulatory liabilities or assets, recognizes such gains or losses in Purchased Gas and these gains and losses are passed through to customers through rate reconciling mechanisms.

As of December 31, 2009, the Company had 1.9 billion cubic feet (BCF) outstanding in natural gas purchase contracts under its hedging program. The following tables provide information on the hedging instruments for 2009.

Fair Value of Derivatives Designated as Hedging Instruments as of December 31, 2009 ($ millions)

Description	Balance Sheet Location	Fair Value
NYMEX Contracts	Current and NonCurrent Liabilities	$2.3

Description	Amount of Gain (Loss) Recognized in Regulatory Asset / Liability for Derivatives as of December 31, 2009	Location of Gain (Loss) Reclassified from Regulatory Asset / Liability into Consolidated Statement of Earnings	Amount of Gain (Loss) Reclassified from Regulatory Asset / Liability into Consolidated Statement of Earnings for 2009
NYMEX Contracts (1)	$(2.9)	Purchased Gas	$(9.3)

(1) Includes approximately $0.6 million of loss on contracts designated for January 2010 that were physically sold in December 2009 and the impact on the Consolidated Balance Sheet has been deferred until January 2010 when the natural gas is used.

Utility Revenue Recognition—Regulated utility revenues are based on rates and charges approved by federal and state regulatory commissions. Revenues related to the sale of electric and gas service are recorded when service is rendered or energy is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on estimated customer usage by class and applicable customer rates.

Revenue Recognition—Non-regulated Operations—Usource, Unitil's competitive energy brokering subsidiary, records energy brokering revenues based upon the estimated amount of electricity and gas delivered to customers through the end of the accounting period.

Allowance for Doubtful Accounts—The Company recognizes a provision for doubtful accounts each month based upon the Company's experience in collecting electric and gas utility service accounts receivable in prior years. At the end of each month, an analysis of the delinquent receivables is performed which takes into account an assumption about the cash recovery of delinquent receivables. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company's distribution utilities are authorized by regulators to recover the costs of their energy commodity portion of bad debts through rate mechanisms. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis, including expected fuel assistance payments from governmental authorities and the level of customers enrolling in payment plans with the Company. It has been the Company's experience that the assumptions it has used in evaluating the adequacy of the Allowance for Doubtful Accounts have proven to be reasonably accurate.

Retirement Benefit Obligations—The Company sponsors the Unitil Corporation Retirement Plan (Pension Plan), which is a defined benefit pension plan covering substantially all of its employees. The Company also sponsors an unfunded retirement plan, the Unitil Corporation Supplemental Executive Retirement Plan (SERP), covering certain executives of the Company and an employee 401(k) savings plan. Additionally, the Company sponsors the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan), primarily to provide health care and life insurance benefits to retired employees.

The Company records on its balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas rates. See Note 9.

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

Commitments and Contingencies—The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with the FASB Codification as it applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2009, the Company is not aware of any material commitments or contingencies other than those disclosed in the Commitments and Contingencies footnote to the Company's consolidated financial statements below. (See Note 6).

Utility Plant—The cost of additions to Utility Plant and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The average interest rates applied to AFUDC were 3.24%, 4.58% and 5.73% in 2009, 2008 and 2007, respectively. The costs of current repairs and minor replacements are charged to appropriate operating expense accounts. The original cost of utility plant retired or otherwise disposed of and the cost of removal, less salvage, are charged to the accumulated provision for depreciation. The Company includes in its mass asset depreciation rates, which are periodically reviewed as part of its ratemaking proceedings, depreciation amounts to provide for future negative salvage value. At December 31, 2009 and December 31, 2008, the Company estimates that the negative salvage value of future retirements recorded on the balance sheet in Accumulated Depreciation is $37.2 million and $33.9 million, respectively.

Depreciation and Amortization—Depreciation expense is calculated on a group straight-line basis based on the useful lives of assets, and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company's fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company's consolidated financial statements. Depreciation provisions for Unitil's utility operating subsidiaries are determined on a group straight-line basis. Provisions for depreciation were equivalent to the following composite rates, based on the average depreciable property balances at the beginning and end of each year: 2009 – 4.02%, 2008 – 3.94% and 2007 – 4.29%.

Environmental Matters—The Company's past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. The Company has or will recover substantially all of the costs of the environmental remediation work performed to date from customers or from its insurance carriers. The Company believes it is in compliance with all applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2009, there are no material losses that would require additional liability reserves to be recorded other than those disclosed in Note 6, Commitments and Contingencies. Changes in future environmental compliance regulations or in future cost estimates of environmental remediation costs could have a material effect on the Company's financial position if those amounts are not recoverable in regulatory rate mechanisms.

Stock-based Employee Compensation—Unitil accounts for stock-based employee compensation using the fair value-based method (See Note 3).

Sales and Consumption Taxes—The Company bills its customers sales tax in Massachusetts and Maine and consumption tax in New Hampshire. These taxes are remitted to the appropriate departments of revenue in each state and are excluded from revenues on the Company's Consolidated Statements of Earnings.

Income Taxes—Provisions for income taxes are calculated in each of the jurisdictions in which the Company operates for each period for which a statement of earnings is presented. This process involves estimating the Company's current tax liabilities as well as assessing temporary and permanent differences resulting from the timing of the deductions of expenses and recognition of taxable income for tax and book accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheets.

Dividends—The Company is currently paying a dividend at an annual rate of $1.38 per common share. The Company's dividend policy is reviewed periodically by the Board of Directors. The amount and timing of all dividend payments is subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial conditions and other factors.

Other Recently Issued Pronouncements—In May 2009, the FASB issued FASB ASC 855, "Subsequent Events", (ASC 855) (originally issued as SFAS No. 165, Subsequent Events), effective for interim and annual reporting periods ending after June 15, 2009. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted ASC 855 and it did not have an impact on the Company's Consolidated Financial Statements. The Company evaluated all events or transactions that occurred after December 31, 2009 up through February 9, 2010.

On April 9, 2009, the FASB issued ASC 825, "Financial Instruments", (ASC 825) (originally issued as FASB Staff Position No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments".) ASC 825 requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. ASC 825 also requires those disclosures in summarized financial information at interim reporting periods. ASC 825 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has adopted ASC 825 and included the required disclosures in the Notes to the Company's Consolidated Financial Statements. See Note 4 for relevant disclosures on the fair value of the Company's long-term debt and Note 9 for relevant disclosures on the fair value of the Company's defined benefit pension and other postretirement plan assets.

On December 30, 2008, the FASB issued ASC 715, “Compensation—Retirement Benefits”, (ASC 715) (originally issued as FASB Staff Position No. FAS 132(R)-1, “Employers’ Disclosures about Postretirement Benefit Plan Assets”) to provide guidance on an employers’ disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by ASC 715 are to be provided for fiscal years ending after December 15, 2009. The Company has adopted ASC 715 and included the required disclosures in the Notes to the Company’s Consolidated Financial Statements. See Note 9.

Reclassifications—Based on the Company’s analysis certain amounts previously reported have been reclassified to improve the financial statements’ presentation and to conform to current year presentation, principally including the reclassification of $7.8 million of Accounts Payable to Energy Supply Obligations and $2.0 million of Accrued Revenue to Other Current Liabilities.

Note 2: Acquisitions

On December 1, 2008, the Company purchased (i) all of the outstanding capital stock of Northern Utilities, a natural gas distribution utility serving customers in Maine and New Hampshire, from Bay State and (ii) all of the outstanding capital stock of Granite State, an interstate gas transmission pipeline company primarily serving the needs of Northern Utilities, from NiSource pursuant to the Stock Purchase Agreement (SPA) dated as of February 15, 2008 by and among NiSource, Bay State, and Unitil. The aggregate purchase price for the Acquisitions was $209.2 million, comprised of $160 million in cash, plus an additional working capital adjustment of $49.2 million. The largest component of working capital was approximately $30.0 million of natural gas storage inventory.

The Company accounted for the Acquisitions under the purchase method of accounting for business combinations, in accordance with FASB Statement No. 141, “Business Combinations” (“SFAS No. 141”) and the FASB Codification on business combinations. Accordingly, the Company recognized its estimate of the bargain purchase price (see “Plant Acquisition Adjustment” in the table below) at December 1, 2008. The process of valuing the assets, liabilities and transaction, transition and financing costs as a result of the Acquisitions was completed in 2009. As a result, the Company has recognized adjustments to its original estimate of the Plant Acquisition Adjustment (PAA) during 2009.

The adjusted PAA is ($24.8 million), a decrease of $3.5 million from the original estimate of ($28.3 million). The adjusted transaction and transition Costs is an increase of $6.9 million over the original estimate, reflecting additional costs to complete the acquisition and financing. Partially offsetting the decrease in the PAA estimate due to the additional transaction and transition Costs were subsequent payments, cash settlements between the purchaser and seller and other post-closing adjustments reflecting changes to working capital, Net Utility Plant and Regulatory Liabilities.

The revised purchase price allocations are as follows:

Purchase Price Allocation
($ Millions)

	December 1, 2008
Equity Purchase Price	$ 160.0
Plus: Working Capital Adjustment	49.2
Aggregate Purchase Price	209.2
Transaction and Transition Costs	14.5
Total Cash Purchase Price	223.7
Allocation To:	
Book Value of Net Utility Plant	(197.0)
Cash Acquired	(6.9)
Accounts Receivable and Other Current Assets	(21.2)
Accrued Revenue	(7.0)
Gas Inventory	(32.3)
Regulatory Assets	(34.3)
Accounts Payable and Other Current Liabilities	20.4
Regulatory Liabilities	29.8
Plant Acquisition Adjustment	**$ (24.8)**

In accordance with settlement agreements between the Company, the New Hampshire Public Utilities Commission (NHPUC) and the Maine Public Utilities Commission (MPUC) regarding the Acquisitions, the Company has agreed (i) not to seek recovery of transaction and transition costs in rates and (ii) for regulatory accounting purposes, to amortize, over a ten year period, the transaction and transition costs co-terminus with the Plant Acquisition Adjustment. See Note 12.

Note 3: Equity

The Company has both common and preferred stock outstanding. Details regarding these forms of capitalization follow:

Common Stock

As of August 21, 2008 the Company's common stock began trading on the New York Stock Exchange and ceased trading on the American Stock Exchange. The Company's common stock trades under the symbol, "UTL".

On September 10, 2008, the Company's shareholders, at a Special Meeting of Shareholders, approved an increase in the authorized shares of the Company's common stock. Shareholders approved an amendment to the Company's Articles of Incorporation to increase the authorized number of shares of the Company's common stock, from 8,000,000 shares to 16,000,000 shares in the aggregate. The Company had 10,836,759, and 7,791,617 of common shares outstanding at December 31, 2009 and December 31, 2008, respectively.

Unitil Corporation Common Stock Offering—On December 15, 2008, the Company issued and sold 2,000,000 shares of its common stock at a price of $20.00 per share in a registered public offering (2008 Offering). As part of this 2008 common stock offering, the underwriters exercised an over-allotment option and purchased an additional 270,000 shares of the Company's common stock in January 2009. The Company's net increase to Common Equity and Cash proceeds from the 2008 Offering including the over-allotment were approximately $41.9 million. On May 27, 2009, the Company issued and sold 2,400,000 shares of its common stock at a price of $20.00 per share in a registered public offering (2009 Offering). As part of the 2009 Offering, the underwriters exercised an over-allotment option and purchased an additional 300,000 shares of the Company's common stock in June 2009. The Company's net increase to Common

Equity and Cash proceeds from the 2009 Offering including the over-allotment was approximately $51.2 million. The combined total net increase to Common Equity and Cash proceeds from the 2008 Offering and 2009 Offering of $93.1 million (after payment of underwriting discount, but excluding offering expenses) was used to (i) repay all amounts outstanding under the bank credit facility that the Company used to partially finance the acquisition of Northern Utilities and Granite State which closed on December 1, 2008, and related transaction costs and expenses and (ii) for other general corporate purposes, including capital contributions to Unitil's distribution utilities and repayment of short-term debt.

Dividend Reinvestment and Stock Purchase Plan—During 2009, the Company sold 43,615 shares of its common stock, at an average price of $20.82 per share, in connection with its Dividend Reinvestment and Stock Purchase Plan (DRP) and its 401(k) plans. Net proceeds of $0.9 million were used to reduce short-term borrowings. The DRP provides participants in the plan a method for investing cash dividends on the Company's common stock and cash payments in additional shares of the Company's common stock. During 2008 and 2007, the Company raised $0.8 million and $1.0 million, respectively, of additional common equity through the issuance of 32,754 and 38,309 shares, respectively, of its common stock in connection with its DRP and 401(k) plans.

Shares Repurchased, Cancelled and Retired—During 2009, 2008 and 2007, Unitil did not repurchase, cancel or retire any of its common stock.

Stock-Based Compensation Plans—Unitil maintains a Restricted Stock plan and two stock option plans, which provided for the granting of options to key employees. The Company accounts for its stock-based compensation plans in accordance with the provisions of the FASB Codification and recognizes compensation costs at fair value at the date of grant. Details of the plans are as follows:

Restricted Stock Plan—On April 17, 2003, the Company's shareholders ratified and approved a Restricted Stock Plan (the Plan) which had been approved by the Company's Board of Directors at its January 16, 2003 meeting. Participants in the Plan are selected by the Compensation Committee of the Board of Directors from the eligible Participants to receive an annual award of restricted shares of Company common stock. The Compensation Committee has the power to determine the sizes of awards; determine the terms and conditions of awards in a manner consistent with the Plan; construe and interpret the Plan and any agreement or instrument entered into under the Plan as they apply to participants; establish, amend, or waive rules and regulations for the Plan's administration as they apply to participants; and, subject to the provisions of the Plan, amend the terms and conditions of any outstanding award to the extent such terms and conditions are within the discretion of the Compensation Committee as provided for in the Plan. Awards fully vest over a period of four years at a rate of 25% each year.

During the vesting period, dividends on restricted shares underlying the award may be credited to the participant's account. Awards may be grossed up to offset the participant's tax obligations in connection with the award. Prior to the end of the vesting period, the restricted shares are subject to forfeiture if the participant ceases to be employed by the Company other than due to the participant's death. The maximum number of shares of Restricted Stock available for awards to participants under the Plan is 177,500. The maximum aggregate number of shares of Restricted Stock that may be awarded in any one calendar year to any one participant is 20,000. In the event of any change in capitalization of the Company, the Compensation Committee is authorized to make proportionate adjustments to prevent dilution or enlargement of rights, including, without limitation, an adjustment in the maximum number and kinds of shares available for awards and in the annual award limit.

Restricted shares issued for 2007 – 2009 in conjunction with the Plan are presented in the following table:

Issuance Date	Shares	Aggregate Market Value (millions)
2/9/07	9,020	$0.2
2/6/08	15,540	$0.4
2/17/09	32,260	$0.7

The compensation expense associated with the issuance of shares under the Plan is being accrued over the vesting period and was $0.7 million, $0.5 million and $0.4 million in 2009, 2008 and 2007, respectively. At December 31, 2009, there was approximately $1.0 million of total unrecognized compensation cost related to non-vested shares under the Plan which is expected to be recognized over a weighted average of approximately 2.7 years as the shares vest. There were 32,043 and 21,024 non-vested shares under the Plan as of December 31, 2009 and 2008, respectively. The weighted average grant date fair value of these shares was $22.78 and $27.38, respectively. There were 733 restricted shares forfeited under the Plan during 2009. There were no cancellations under the Plan during 2008.

Unitil Corporation Key Employee Stock Option Plan—In the third quarter of 2007, the Company issued and sold 42,437 shares of its common stock, at a final average price of $10.70 per share, in connection with the exercise of stock options under the Unitil Corporation Key Employee Stock Option Plan (KESOP) which expired in 2007. The aggregate intrinsic value of the options exercised was $0.8 million. As of December 31, 2007, there are no options remaining under the KESOP. Net proceeds of $0.5 million were used by the Company to reduce short-term borrowings.

The total compensation expense recorded by the Company with respect to this plan was $57,000 for the year ended December 31, 2007. There was no compensation expense recorded for the years ended December 31, 2008 and 2009 with respect to this plan.

Share Option Activity of the KESOP is presented in the following table:

	2007
Beginning Options Outstanding and Exercisable	**25,000**
Dividend Equivalents Earned—Prior Years	**15,388**
Dividend Equivalents Earned—Current Year	**2,049**
Options Exercised	**(42,437)**
Ending Options Outstanding and Exercisable	**—**
Weighted Average Exercise Price per Share	**$10.70**
Range of Option Exercise Price per Share	**$12.11-$18.28**
Weighted Average Remaining Contractual Life	**n/a**

Unitil Corporation 1998 Stock Option Plan—The "Unitil Corporation 1998 Stock Option Plan" became effective on December 11, 1998. The number of shares granted under this plan, as well as the terms and conditions of each grant, are determined by the Compensation Committee of the Board of Directors, subject to plan limitations. All options granted under this plan vest over a three-year period from the date of the grant, with 25% vesting on the first anniversary of the grant, 25% vesting on the second anniversary, and 50% vesting on the third anniversary. Under the terms of this plan, key employees may be granted options to purchase the Company's common stock at no less than 100% of the market price on the date the option is granted. All options must be exercised no later than 10 years after the date on which they were granted. This plan was terminated on January 16, 2003 but will remain in effect solely for the purposes of the continued administration of all options currently outstanding under the plan.

In 2008, the Company issued and sold 3,300 shares of its common stock, at a final average price of $24.51 per share, in connection with the exercise of stock options under the Unitil Corporation 1998 Stock Option Plan. The aggregate intrinsic value of the options exercised was less than $0.1 million. Net proceeds of $0.1 million were used by the Company to reduce short-term borrowings. There was no compensation expense associated with this plan in 2009, 2008 and 2007. No further grants of options will be made under this plan. As of December 31, 2009 and 2008, there was no aggregate intrinsic value of the options exercisable. As of December 31, 2007, the intrinsic value of the options exercisable was $0.1 million.

	2009		2008		2007	
	Number of Shares	**Average Exercise Price**	**Number of Shares**	**Average Exercise Price**	**Number of Shares**	**Average Exercise Price**
Beginning Options Outstanding	**97,200**	**$27.16**	107,000	$27.13	107,000	$27.13
Options Granted	**—**	**—**	—	—	—	—
Options Exercised	**—**	**—**	(3,300)	$24.51	—	—
Options Forfeited / Expired	**(33,700)**	**$23.88**	(6,500)	$27.99	—	—
Ending Options Outstanding	**63,500**	**$28.90**	97,200	$27.16	107,000	$27.13
Options Vested and Exercisable- end of year	**63,500**	**$28.90**	97,200	$27.16	107,000	$27.13

The following summarizes certain data for the options outstanding at December 31, 2009:

Range of Exercise Prices	Options Vested, Exercisable and Outstanding	Weighted Average Exercise Price	Remaining Contractual Life
$25.00-$29.99	33,000	$25.88	1.1 years
$30.00-$34.99	30,500	$32.17	0.1 years
	63,500		

Preferred Stock

Two of Unitil's distribution companies, Unitil Energy and Fitchburg, have $2.0 million of preferred stock outstanding. At December 31, 2009, Unitil Energy has $0.2 million of 6.00% Series Non-Redeemable, Non-Cumulative Preferred Stock series outstanding and Fitchburg has two series of Redeemable, Cumulative Preferred Stock outstanding, $0.8 million of 5.125% Series and $1.0 million of 8.00% Series.

Fitchburg is required to offer to redeem annually a given number of shares of each series of Redeemable, Cumulative Preferred Stock and to purchase such shares that shall have been tendered by holders of the respective stock. In addition, Fitchburg may opt to redeem the Redeemable, Cumulative Preferred Stock at a given redemption price, plus accrued dividends.

The aggregate purchases of Redeemable, Cumulative Preferred Stock during 2009, 2008 and 2007 related to the annual redemption offer were $26,000, $21,200 and $21,700, respectively. The aggregate amount of sinking fund requirements of the Redeemable, Cumulative Preferred Stock for each of the five years following 2009 is $117,000 per year.

Earnings Per Share

The following table reconciles basic and diluted earnings per share.

(Millions except shares and per share data)	2009	2008	2007
Earnings Available to Common Shareholders	**$ 9.9**	$ 9.6	$ 8.6
Weighted Average Common Shares Outstanding—Basic (000's)	**9,647**	5,830	5,659
Plus: Diluted Effect of Incremental Shares (000's)	**—**	—	13
Weighted Average Common Shares Outstanding—Diluted (000's)	**9,647**	5,830	5,672
Earnings per Share—Basic and Diluted	**$ 1.03**	$ 1.65	$ 1.52

Weighted average options to purchase 63,500, 97,200 and 35,000 shares of common stock were outstanding during 2009, 2008 and 2007, respectively, but were not included in the computation of Weighted Average Common Shares Outstanding for purposes of computing diluted earnings per share, because the effect would have been antidilutive. Additionally, 28,963, 15,985 and 2,030 weighted average non-vested restricted shares for 2009, 2008 and 2007, respectively, were not included in the above computation because the effect would have been antidilutive.

Note 4: Long-Term Debt, Credit Arrangements, Leases and Guarantees

The Company funds a portion of its operations through the issuance of long-term debt and through short-term borrowings under its revolving credit facility. The Company's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their machinery, vehicles and office equipment. Details regarding long-term debt, short-term debt and leases follow:

Long-Term Debt and Interest Expense

Long-Term Debt Structure and Covenants—The agreements under which the long-term debt of Unitil and its utility subsidiaries, Unitil Energy, Fitchburg, Northern Utilities, and Granite State, were issued contain various covenants and restrictions. These agreements do not contain any covenants or restrictions pertaining to the maintenance of financial ratios or the issuance of short-term debt. These agreements do contain covenants relating to, among other things, the issuance of additional long-term debt, cross-default provisions and business combinations, as described below.

The long-term debt of Unitil is issued under Unsecured Promissory Notes with negative pledge provisions. The long-term debt's negative pledge provisions contain restrictions which, among other things, limit the incursion of additional long-term debt. Accordingly, in order for Unitil to issue new long-term debt, the covenants of the existing long-term agreement(s) must be satisfied, including that Unitil have total funded indebtedness less than 70% of total capitalization, and earnings available for interest equal to at least two times the interest charges for funded indebtedness. Each future senior long-term debt issuance of Unitil will rank pari passu with all other senior unsecured long-term debt issuances. The Unitil agreement requires that if Unitil defaults on any other future long-term debt agreement(s), it would constitute a default under its present long-term debt agreement. Furthermore, the default provisions are triggered by the defaults of Unitil Energy and Fitchburg or certain other actions against subsidiary companies in the Unitil System.

Substantially all of the property of Unitil Energy is subject to liens of indenture under which First Mortgage Bonds (FMB) have been issued. In order to issue new FMB, the customary covenants of the existing Unitil Energy Indenture Agreement must be met, including that Unitil Energy have sufficient available net bondable plant to issue the securities and projected earnings available for interest charges equal to at least two times the annual interest requirement. The Unitil Energy agreements further require that if Unitil Energy defaults on any Unitil Energy FMB, it would constitute a default for all Unitil Energy FMB. The Unitil Energy default provisions are not triggered by the actions or defaults of Unitil or its other subsidiaries.

All of the long-term debt of Fitchburg, Northern Utilities and Granite State are issued under Unsecured Promissory Notes with negative pledge provisions. Each issue of long-term debt ranks pari passu with its other senior unsecured long-term debt within that subsidiary. The long-term debt's negative pledge provisions contain restrictions which, among other things, limit the incursion of additional long-term debt. Accordingly, in order for Fitchburg, Northern Utilities or Granite State to issue new long-term debt, the covenants of the existing long-term agreements of that subsidiary must be satisfied, including that the subsidiary have total funded indebtedness less than 65% of total capitalization. Additionally, to issue new long-term debt, Fitchburg must maintain earnings available for interest equal to at least two times the interest charges for funded indebtedness. As with the Unitil Energy agreements, the Fitchburg, Northern Utilities and Granite State agreements each require that if that subsidiary defaults on any of its own long-term debt agreements, it would constitute a default under all of that subsidiary's long-term debt agreements. Each of the Fitchburg, Northern Utilities and Granite State default provisions are not triggered by the actions or defaults of Unitil or any of its other subsidiaries.

The Unitil, Unitil Energy, Fitchburg, Northern Utilities and Granite State long-term debt instruments and agreements contain covenants restricting the ability of each company to incur liens and to enter into sale and leaseback transactions, and restricting the ability of each company to consolidate with, to merge with or into, or to sell or otherwise dispose of all or substantially all of its assets. The Granite State notes are guaranteed by Unitil for the payment of principal, interest and other amounts payable. This guarantee will terminate if Granite State is reorganized and merges with and into Northern Utilities.

At December 31, 2009, there were no restrictions on Unitil's Retained Earnings for the payment of common dividends. Unitil Energy, Fitchburg, Northern Utilities and Granite State pay dividends to their sole shareholder, Unitil Corporation, and these dividends are the primary source of cash for the payment of dividends to Unitil's common shareholders.

Debt Repayment and Sinking Funds—The total aggregate amount of sinking fund payments relating to bond issues and normal scheduled long-term debt repayments amounted to $393,946, $363,755, and $335,877 in 2009, 2008, and 2007, respectively.

The aggregate amount of bond sinking fund requirements and normal scheduled long-term debt repayments for each of the five years following 2009 is: 2010 – $426,643; 2011 – $462,055; 2012 – $500,405; 2013 – $541,938; and 2014 – $2,486,919, respectively.

Long-Term Debt Issuances

On December 18, 2009, both Unitil Energy and Northern Utilities priced long-term financings scheduled to close in the first quarter of 2010:

(i) Unitil Energy priced $15,000,000 of First Mortgage Bonds, through a private placement marketing process to institutional investors. The First Mortgage Bonds were priced at a coupon rate of 5.24% and have a final maturity of ten years. Unitil Energy plans to use the net proceeds from this long-term financing to repay short-term debt and for general corporate purposes. Unitil Energy anticipates closing this long-term financing in March 2010.

(ii) Northern Utilities priced $25,000,000 of Senior Unsecured Notes, through a private placement marketing process to institutional investors. The Senior Unsecured Notes were priced at a coupon rate of 5.29% and have a final maturity of ten years. Northern Utilities plans to use the net proceeds from this long-term financing to repay short-term debt and for general corporate purposes. Northern Utilities anticipates closing this long-term financing in March 2010.

The Unitil Energy and Northern Utilities securities offered will not be, and have not been, registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

On December 15, 2008, Granite State completed the sale of $10 million of Senior Unsecured Notes, through a private placement to institutional investors. The Notes have a term of 10 years maturity and a coupon rate of 7.15%. The Company used the proceeds from the long-term Note financing to repay a portion of the bank financing for Unitil's acquisition of Granite State.

On December 3, 2008, Northern Utilities completed the sale of $80 million of Senior Unsecured Notes, through a private placement to institutional investors. The debt financing included $50 million of 30-year notes with a coupon rate of 7.72% and $30 million of 10-year notes with a coupon rate of 6.95%. The Company used the proceeds from the long-term Note financing to repay a portion of the bank financing for Unitil's acquisition of Northern Utilities.

On May 2, 2007, Unitil completed the sale of $20 million of Senior Long-Term Notes, through a private placement to institutional investors. The Notes have a term of 15 years maturity and a coupon rate of 6.33%. The Company used the proceeds from the long-term Note financing to refinance existing short-term debt and for other corporate purposes of the Company's principal utility subsidiaries.

Fair Value of Long-Term Debt—Currently, the Company believes that there is no active market in the Company's debt securities, which have all been sold through private placements. If there were an active market for the Company's debt securities, the fair value of the Company's long-term debt would be estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities. In estimating the fair value of the Company's long-term debt, the assumed market yield reflects the Moody's Baa Utility Bond Average Yield for December 2009. The carrying value of the Company's long-term debt at December 31, 2009 is $249.3 million. The fair value of the Company's long-term debt at December 31, 2009 is estimated to be approximately $271.6 million. Costs, including prepayment costs, associated with the early settlement of long-term debt are not taken into consideration in determining fair value.

Details on long-term debt at December 31, 2009 and 2008 are shown below:

	December 31,	
Long-Term Debt (millions)	**2009**	**2008**
Unitil Corporation Senior Notes:		
6.33% Notes, Due May 1, 2022	**$ 20.0**	$ 20.0
Unitil Energy First Mortgage Bonds:		
8.49% Series, Due October 14, 2024	**15.0**	15.0
6.96% Series, Due September 1, 2028	**20.0**	20.0
8.00% Series, Due May 1, 2031	**15.0**	15.0
6.32% Series, Due September 15, 2036	**15.0**	15.0
Fitchburg Long-Term Notes:		
6.75% Notes, Due November 30, 2023	**19.0**	19.0
7.37% Notes, Due January 15, 2029	**12.0**	12.0
7.98% Notes, Due June 1, 2031	**14.0**	14.0
6.79% Notes, Due October 15, 2025	**10.0**	10.0
5.90% Notes, Due December 15, 2030	**15.0**	15.0
Northern Utilities Senior Notes:		
6.95% Senior Notes, Series A, Due December 3, 2018	**30.0**	30.0
7.72% Senior Notes, Series B, Due December 3, 2038	**50.0**	50.0
Granite State Senior Notes:		
7.15% Senior Notes, Due December 15, 2018	**10.0**	10.0
Unitil Realty Corp. Senior Secured Notes:		
8.00% Notes, Due August 1, 2017	**4.3**	4.7
Total Long-Term Debt	**249.3**	249.7
Less: Current Portion	**0.4**	0.4
Total Long-Term Debt, Less Current Portion	**$248.9**	$249.3

Interest Expense, net—Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. In addition, certain reconciling rate mechanisms used by the Company's distribution operating utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated.

Unitil's utility subsidiaries operate a number of reconciling rate mechanisms to recover specifically identified costs on a pass through basis. These reconciling rate mechanisms track costs and revenue on a monthly basis. In any given month, this monthly tracking and reconciling process will produce either an under-collected or an over-collected balance of costs. In accordance with the distribution utilities' rate tariffs, interest is accrued on these balances and will produce either interest income or interest expense. Consistent with regulatory precedent, interest income is recorded on an under-collection of costs, including carrying charges of $1.1 million in 2009 on deferred storm costs, which creates a regulatory asset to be recovered in future periods when rates are reset. Interest expense is recorded on an over-collection of costs, which creates a regulatory liability to be refunded in future periods when rates are reset.

A summary of interest expense and interest income is provided in the following table:

Interest Expense, net (millions)

	2009	**2008**	**2007**
Interest Expense			
Long-term Debt	**$18.2**	$12.0	$11.1
Short-term Debt	**2.1**	1.3	1.1
Regulatory Liabilities	**0.3**	0.1	0.8
Subtotal Interest Expense	**20.6**	13.4	13.0
Interest Income			
Regulatory Assets	**(3.6)**	(2.5)	(2.9)
AFUDC [1] and Other	**(1.2)**	(0.4)	(0.5)
Subtotal Interest Income	**(4.8)**	(2.9)	(3.4)
Total Interest Expense, net	**$15.8**	$10.5	$ 9.6

(1) AFUDC—Allowance for Funds Used During Construction

Credit Arrangements

At December 31, 2009, the Company had $64.5 million in short-term debt outstanding through bank borrowings under its revolving credit facility. The revolving credit facility contains customary terms and conditions for credit facilities of this type, including, without limitation, covenants restricting the Company's ability to incur liens, merge or consolidate with another entity or change its line of business. The revolving credit agreement also contains a covenant restricting the Company's ability to permit long-term debt to exceed 65% of capitalization at the end of each fiscal quarter. As of December 31, 2009, the Company was in compliance with the financial covenants contained in the revolving credit agreement.

On October 13, 2009, the Company entered into an amendment to its 364-day revolving credit facility with Bank of America, as administrative agent, and a syndicate of lenders. The Company originally entered into the facility on November 26, 2008. The amendment increases the maximum borrowings under the facility from $60 million to $80 million. It also (i) decreases the upfront fees to 15 basis points of the aggregate commitment, (ii) changes the commitment fees from 30 to 40 basis points per annum of the average difference between the aggregate commitment and the outstanding borrowings, (iii) changes the margin applicable to borrowings from 1.75% to 2.0% per annum, and (iv) extends the maturity date for borrowings to October 12, 2010. Except as expressly amended by the amendment, all other terms and conditions of the facility remain in full force and effect.

The weighted average interest rates on all short-term borrowings were 3.4%, 3.8%, and 5.6% during 2009, 2008, and 2007, respectively.

Northern enters into asset management agreements under which Northern releases certain natural gas pipeline and storage assets, resells the natural gas storage inventory to an asset manager and subsequently repurchases the inventory over the course of the natural gas heating season at the same price at which it sold the natural gas inventory to the asset manager. There was $10.0 million and $31.8 million outstanding at December 31, 2009 and December 31, 2008, respectively, related to these asset management agreements.

Leases

Unitil's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their vehicles, machinery and office equipment under both capital and operating lease arrangements.

Total rental expense under operating leases charged to operations for the years ended December 31, 2009, 2008 and 2007 amounted to $1.0 million, $0.6 million and $0.4 million respectively. Fitchburg leases its operations facility in Fitchburg, Massachusetts under an operating lease, with a primary term through January 31, 2013. The lease agreement allows for three additional five-year renewal periods at the option of Fitchburg.

The following is a schedule of future operating lease payment obligations and future minimum lease payments under capital leases as of December 31, 2009:

Year Ending December 31, (000's)	Operating Leases	Capital Leases
2010	$1,027	$ 656
2011	906	568
2012	820	252
2013	467	53
2014	250	3
2015 – 2019	467	—
Total Payments	$3,937	$1,532

Guarantees

The Company provides limited guarantees on certain energy and natural gas storage management contracts entered into by the distribution utilities. The Company's policy is to limit these guarantees to two years or less. As of December 31, 2009, there were approximately $30.5 million of guarantees outstanding and the longest term guarantee extends through December 31, 2010. Of this amount, $8.0 million is related to Unitil's guarantee of payment for the term of the Northern Utilities' gas storage management agreement, discussed above.

The Company also guarantees the payment of principal, interest and other amounts payable on the notes issued by Unitil Realty and Granite State. As of December 31, 2009, the principal amount outstanding for the 8% Unitil Realty notes was $4.3 million, and the principal amount outstanding for the 7.15% Granite State notes was $10.0 million. The guarantee related to the Granite State notes will terminate if Granite State reorganizes and merges with and into Northern Utilities.

Note 5: Energy Supply

Natural Gas Supply

With the purchase of Northern Utilities on December 1, 2008, Unitil now manages gas supply for customers served by Northern Utilities in Maine and New Hampshire as well as customers served by Fitchburg in Massachusetts.

Fitchburg's residential and commercial and industrial (C&I) customers have the opportunity to purchase their natural gas supply from third-party gas supply vendors, although most of Fitchburg's customers continue to purchase such supplies at regulated rates from Fitchburg. Northern Utilities' C&I natural gas customers have the opportunity to purchase their natural gas supply from third-party gas supply vendors, and third-party supply is prevalent among Northern Utilities' larger C&I customers. Most small C&I customers, as well as all residential customers, purchase their gas supply at regulated rates from Northern Utilities under regulated rates and tariffs. The approved costs associated with the acquisition of such wholesale natural gas supplies for customers who do not contract with third-party suppliers are recovered on a pass-through basis through periodically-adjusted rates and are included in Purchased Gas in the Consolidated Statements of Earnings.

In the fourth quarter of 2009, the MDPU issued an order finding that Fitchburg engaged in certain price stabilization practices for the 2007 / 2008 and 2008 / 2009 heating seasons without the MDPU's prior approval and that Fitchburg's gas purchasing practices were imprudent. As a result, the MDPU required Fitchburg to refund $4.6 million of natural gas costs, plus carrying charges, to its gas customers. Fitchburg recorded a pre-tax charge of $4.9 million in the fourth quarter of 2009 based on the MDPU's order. Fitchburg has appealed this order to the Massachusetts Supreme Judicial Court. Fitchburg's assessment is that pre-approval from the MDPU for gas purchases made to stabilize prices for customers was not required and that its gas-procurement practices were consistent with those of other Massachusetts natural gas distribution companies and all relevant MDPU rules and orders and Massachusetts law. In addition, Fitchburg is able to demonstrate that its gas purchasing practices were previously disclosed to the MDPU at public hearings and in required filings with the MDPU and the Massachusetts Office of the Attorney General. This appeal remains pending before the Massachusetts Supreme Judicial Court. Immediately after the MDPU opened its investigation of this matter in March 2009, Fitchburg ceased making the gas procurement purchases in question and filed a request with the MDPU for approval of a gas procurement plan for future gas purchases. This matter remains pending before the MDPU.

Regulated Natural Gas Supply

Fitchburg purchases natural gas under contracts of one year or less, as well as from producers and marketers on the spot market. Fitchburg arranges for gas delivery to its system through its own long-term contracts with Tennessee Gas Pipeline, or in the case of liquefied natural gas (LNG) or liquefied propane gas (LPG), to truck supplies to each storage facility within Fitchburg's service territory.

Fitchburg has available under firm contract 14,057 MMbtu per day of year-round and seasonal transportation and underground storage capacity to its distribution facilities. As a supplement to pipeline natural gas, Fitchburg owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

Northern purchases a majority of its natural gas from U.S. domestic and Canadian suppliers under contracts of one year or less, and on occasion from producers and marketers on the spot market. Northern arranges for gas delivery to its system through its own long-term contracts with various interstate pipeline and storage facilities, through peaking supply contracts delivered to its system, or in the case of liquefied natural gas (LNG) or liquefied propane gas (LPG), to truck supplies to each storage facility within Northern Utilities' service territory.

Northern has available under firm contract 100,000 MMbtu per day of year-round and seasonal transportation capacity to its distribution facilities, and 3.4 Bcf of underground storage. As a supplement to pipeline natural gas, Northern owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

Electric Power Supply

The restructuring of the utility industry in New Hampshire required the divestiture of Unitil's power supply arrangements and the procurement of replacement supplies, which provided the flexibility for migration of customers to and from utility energy service. Fitchburg, Unitil Energy, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the ISO New England, Inc. (ISO-NE) markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve Unitil's customers.

As a result of restructuring of the electric utility industry in Massachusetts and New Hampshire, Unitil's customers in both New Hampshire and Massachusetts have the opportunity to purchase their electric supply from competitive third party energy suppliers. As of December 2009, 99 or 67% of Unitil's largest New Hampshire customers, representing 24% of total New Hampshire electric energy sales, and 26 or 79% of Unitil's largest Massachusetts customers, representing 35% of total Massachusetts electric energy sales, are purchasing their electric power supply in the competitive market. However, most residential and small commercial customers continue to purchase their electric supply through Unitil's distribution utilities under regulated energy rates and tariffs. The concentration of the competitive retail market on higher use customers has been a common experience throughout the New England electricity market.

Regulated Electric Power Supply

In order to provide regulated electric supply service to their customers, Unitil's distribution utilities enter into load-following wholesale electric power supply contracts with various wholesale suppliers.

Fitchburg has power supply contracts with various wholesale suppliers for the provision of Basic Service energy supply. MDPU policy dictates the pricing structure and duration of each of these contracts. Currently, all Basic Service power supply contracts for large general accounts are three months in duration and provide 100% of supply requirements. Basic Service power supply contracts for residential and small and medium general service customers are acquired every six months, are 12 months in duration and provide 50% of the supply requirements.

Unitil Energy currently has power supply contracts with various wholesale suppliers for the provision of Default Service to its customers. Unitil Energy procures Default Service supply for its large general service accounts through competitive solicitations for power contracts of three months in duration for 100% of supply requirements. Unitil Energy procures Default Service supply for its other customers through a series of two one-year contracts and two three-year contracts, each providing 25% of the total supply requirements of the group.

The NHPUC and MDPU regularly investigate alternatives to their procurement policy, which may lead to future changes in this regulated power supply procurement structure.

Regional Electric Transmission and Power Markets

Fitchburg, Unitil Energy and Unitil Power, as well as virtually all New England electric utilities, are participants in the ISO-NE markets. ISO-NE is the Regional Transmission Organization (RTO) in New England. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economic manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. The ISO-NE tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated power system operation in a reliable manner and a supportive business environment for the development of competitive electric markets.

Electric Power Supply Divestiture

Prior to May 1, 2003, Unitil Energy purchased all of its power supply from Unitil Power under the Unitil System Agreement, a FERC-regulated tariff, which provided for the recovery of all of Unitil Power's power supply-related costs on a cost pass-through basis. Effective May 1, 2003, Unitil Energy and Unitil Power amended the Unitil System Agreement, such that power sales from Unitil Power to Unitil Energy ceased, and Unitil Power sold substantially all of its entitlements under the remaining portfolio of power supply contracts. Under the amended Unitil System Agreement, Unitil Energy continues to pay contract release payments to Unitil Power for stranded costs associated with the portfolio sale and its other ongoing power supply-related costs. In connection with the restructuring of the electric industry, Unitil Power and Fitchburg divested substantially all of their long-term power supply contracts and interests in generation assets through the sale of the interest in those assets or the sale of the entitlements to the electricity provided by those generation assets and long-term power supply contracts.

Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. Unitil's distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

Note 6: Commitments and Contingencies

Legal Proceedings

A putative class action complaint was filed against Fitchburg on January 7, 2009 in Worcester Superior Court in Worcester, Massachusetts, captioned Bellerman v. Fitchburg Gas and Electric Light Company. On April 1, 2009, an Amended Complaint was filed in Worcester Superior Court and served on Fitchburg. The Amended Complaint seeks an unspecified amount of damages including the cost of temporary housing and alternative fuel sources, emotional and physical pain and suffering and property damages allegedly incurred by customers in connection with the loss of electric service during the ice storm in Fitchburg's service territory in December, 2008. The Amended Complaint includes M.G.L. ch. 93A claims for purported unfair and deceptive trade practices related to the December 2008 Storm. On September 4, 2009, the Superior Court issued its order on the Company's Motion to Dismiss the Complaint, granting it in part and denying it in part. The Company continues to believe the suit is without merit, and will defend itself vigorously.

Regulatory Matters

Overview (Unitil Energy, Fitchburg, and Northern Utilities): Unitil's distribution utilities deliver electricity and/or natural gas to customers in the Company's service territory at rates established under traditional cost of service regulation. Under this regulatory structure, Unitil Energy, Fitchburg, and Northern Utilities recover the cost of providing distribution service to their customers based on a representative test year, in addition to earning a return on their capital investment in utility assets. As a result of the restructuring of the utility industry in New Hampshire, Massachusetts and Maine, most Unitil customers have the opportunity to purchase their electric or natural gas supplies from third-party suppliers. For Northern Utilities, only business customers have the opportunity to purchase their natural gas supplies from third-party suppliers at this time. Most small and medium-sized customers, however, continue to purchase such supplies through Unitil Energy, Fitchburg and Northern Utilities as the providers of basic or default service energy supply. Unitil Energy, Fitchburg and Northern Utilities purchase electricity or natural gas for basic or default service from unaffiliated wholesale suppliers and recover the actual costs of these supplies, without profit or markup, through reconciling, pass-through rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, Unitil Power and Fitchburg divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next two to four years, is $63.0 million as of December 31, 2009 including $17.7 million recorded in Current Assets as Accrued Revenue on the Company's Consolidated Balance Sheet. Unitil's distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

Major Ice Storm—On December 11 and 12, 2008, a severe ice storm (December 2008 Ice Storm) struck the New England region, causing extensive damage to electric facilities and loss of service to significant numbers of customers of several utilities. An estimated one million electric customers in the region were affected, including all of Unitil's 28,000 Massachusetts customers, and approximately half of its New Hampshire customers. Unitil was able to restore power to over 80 percent of its customers by day seven, and its final customers, including those with individual service problems, were restored in Massachusetts by December 24, 2008. As a result of the December 2008 Ice Storm, the Company has spent approximately $23 million for the repair and replacement of electric distribution systems damaged during the storm, including $8.3 million related to capital construction and $14.6 million, including carrying charges, which has been deferred as a regulatory asset, based on orders issued by the MDPU and NHPUC, discussed below. Also, the Company expensed $3.0 million for professional fees related to the ice storm, in addition to normal anticipated expenditures related to emergency storm preparedness. The Company does not believe these storm restoration expenditures and the timing of cost recovery will have a material adverse impact on the Company's financial condition or results of operations. However, if it were ultimately determined that certain of these costs were not recoverable in rates, and/or the Company were required to incur additional costs to defend itself, there may be a significant impact on the Company's results of operations in future periods.

On January 7, 2009, the MDPU opened an investigation into the preparation and response of the Massachusetts electric distribution companies to the December 2008 Ice Storm. Evidentiary hearings before the MDPU concerning Fitchburg's storm response were held in May, 2009. On November 2, 2009, the MDPU issued its order with respect to its investigation, finding that Fitchburg's preparation for, and response to, the December 2008 Ice Storm constituted a failure of the Company to meet its public service obligation to provide safe and reliable service. As a result, the MDPU ordered a comprehensive independent management audit of Fitchburg's management practices to address: Unitil's strategic planning processes; its staffing decisions to the extent to which they affect Fitchburg; its management and control of Fitchburg, including resource allocation decisions made among Unitil's three subsidiary companies; and customer relations. The order also directed Fitchburg to implement a series of operational and capital improvements which had been identified and recommended through the Company's self-assessment review. Finally, the MDPU noted that the costs incurred by Fitchburg for the December 2008 Ice Storm would be subject to review in Fitchburg's next electric rate case, along with Fitchburg's rate of return.

On July 28, 2009, Fitchburg filed with the MDPU a petition for approval to defer and record as a regulatory asset approximately $11.5 million of costs associated with the repair of its electric distribution system from damage caused by the December 2008 Ice Storm for future recovery in rates. On December 30, 2009, the MDPU approved the request. The order of approval stated that it made no findings as to whether the subject expenses were reasonable or whether they can be recovered from ratepayers, and that the MDPU will consider the subsequent ratemaking treatment of the expense as part of Fitchburg's next rate case. Fitchburg anticipates filing its next rate case during the second quarter of 2010. As of December 31, 2009, Fitchburg has deferred approximately $12.3 million of costs, including carrying charges, associated with the repair of its electric distribution system from damage caused by the December 2008 Ice Storm for future recovery in rates.

On August 26, 2009, Unitil Energy filed a petition with the NHPUC requesting an accounting order authorizing Unitil Energy to record as a regulatory asset approximately $2 million in expenses associated with network damage from the December 2008 Ice Storm until such time as the Commission issues a final order in Unitil Energy's next base rate case. On November 9, 2009, the NHPUC granted the requested accounting order, clarifying that such issues as the appropriate amount of the storm related expenses to be recovered, the timing and manner of recovery, and what, if any, return should be applied to the unrecovered balance are issues that will be deferred to Unitil Energy's next rate case. Unitil Energy anticipates filing its next rate case during the second quarter 2010. As of December 31, 2009, Unitil Energy has deferred approximately $2.3 million of costs, including carrying charges, associated with the repair of its electric distribution system from damage caused by the December 2008 Ice Storm for future recovery in rates.

On December 3, 2009, the NHPUC issued its final report regarding its 'after action' review of the December 2008 Ice Storm. The after action review was a non-docketed investigation by the NHPUC of utility emergency preparedness and response. The report stated that the NHPUC will commence an adjudicative proceeding to examine the reasonableness of the timing of Unitil's response to the December 2008 Ice Storm, the priorities of its restorations and the allocation of its resources in New Hampshire and Massachusetts. On January 8, 2010, the NHPUC opened a docket to consider Unitil Energy's response to the December 2008 Ice Storm, including the timing of its response, its restoration priorities and strategies and the procurement and allocation of its resources in New Hampshire and Massachusetts. This matter remains pending.

Unitil Energy: On May 14, 2007, the NHPUC issued an order opening an investigation into the merits of instituting appropriate rate mechanisms, such as revenue decoupling, which would have the effect of removing obstacles to, and encouraging investment in, energy efficiency. On January 16, 2009, the NHPUC issued its decision in this matter, concluding that such rate mechanisms should only be implemented on a company-by-company basis in the context of an examination of company-specific costs and revenues, service territory, customer mix and rate base investment. On March 23, 2009, the NHPUC denied a Motion for Rehearing of this matter.

In July 2008, the State of New Hampshire enacted legislation that allows electric utilities to make investments in distributed energy resources, including energy efficiency and demand reduction technologies, as well as clean cogeneration and renewable generation. On August 5, 2009 Unitil Energy filed a plan for approval of investment in and rate recovery for Distributed Energy Resources. This matter remains pending before the NHPUC.

Fitchburg—Electric Operations: On November 25, 2009, Fitchburg submitted its annual reconciliation of costs and revenues for Transition and Transmission under its restructuring plan (the Annual Reconciliation Filing). In addition, the Standard Offer Service and Default Service Costs incurred during the seven year Standard Offer Service period that ended February 28, 2005 have been combined and recovery is proposed through a Transition Charge Surcharge of $0.00400 per kWh. Changes to the Pension/PBOP Adjustment and Residential Assistance Adjustment Factor were proposed in other proceedings. The rates were approved effective January 1, 2010, subject to reconciliation pending investigation by the MDPU. This matter remains pending. A final order on Fitchburg's 2008 Annual Reconciliation Filing also remains pending.

On November 12, 2009, the Governor of Massachusetts signed House Bill 4329. The bill (i) requires the MDPU to establish regulations for utilities to respond to emergencies, (ii) requires utilities to file with the MDPU annual emergency response plans, (iii) authorizes the MDPU to impose penalties for a utility's failure to comply with the MDPU's regulations, and (iv) allows the chair of the MDPU to issue operational and management directives during an emergency. The bill also authorizes the Massachusetts Attorney General to bring a court action for receivership of a small investor-owned utility where an emergency exists and the utility has materially violated the MDPU's standards for responding to emergencies. On February 2, 2010, the MDPU issued an order adopting the items required by House Bill 4329.

Fitchburg—Gas Operations: Fitchburg provides natural gas delivery service to its customers on a firm or interruptible basis under unbundled distribution rates approved by the MDPU. Its current distribution rates were approved by the MDPU in 2007. Fitchburg's customers may purchase natural gas supplies from third-party vendors or purchase their natural gas from Fitchburg under regulated rates and tariffs. Fitchburg collects its natural gas supply costs through a seasonal reconciling Cost of Gas Adjustment Clause and recovers other related costs through a reconciling Local Distribution Adjustment Clause.

On March 12, 2009, the MDPU opened an investigation into Fitchburg's gas procurement practices. On November 2, 2009 the MDPU issued an order finding that Fitchburg engaged in certain price stabilization practices for the 2007 / 2008 and 2008 / 2009 heating seasons without the MDPU's prior approval and that Fitchburg's gas purchasing practices were imprudent. As a result, the MDPU required Fitchburg to refund $4.6 million of natural gas costs, plus an appropriate carrying charge based on the prime lending rate, to its gas customers. The Company recorded a pre-tax charge of $4.9 million in the fourth quarter of 2009 based on the MDPU's order. On November 30, 2009, the MDPU approved Fitchburg's proposal to amortize its refund of natural gas costs to customers over a five-year period. Fitchburg has appealed the gas procurement Order to the Massachusetts Supreme Judicial Court. Fitchburg's assessment is that pre-approval from the MDPU for gas purchases made to stabilize prices for customers was not required and that its gas-procurement practices were consistent with those of other Massachusetts natural gas distribution companies and all relevant MDPU rules and orders and Massachusetts law. In addition, Fitchburg is able to demonstrate that its gas purchasing practices were previously disclosed to the MDPU at public hearings and in required filings with the MDPU and the Massachusetts Office of the Attorney General. This appeal remains pending before the Massachusetts Supreme Judicial Court. Immediately after the MDPU opened its investigation of this matter in March 2009, Fitchburg ceased making the gas procurement purchases in question and filed a request with the MDPU for approval of a gas procurement plan for future gas purchases. This matter remains pending before the MDPU.

During the summer of 2009, Fitchburg operated its gas system entirely on local production from LNG for approximately three months due to construction on the lateral from Tennessee Gas Pipeline, which is the sole source of pipeline gas to Fitchburg. During this time Fitchburg provided gas LNG supply to all firm sales customers and also to the retail marketers for delivery to firm customers who have contracted for third party supply. Fitchburg's management of this project was reviewed by the MDPU during its last Integrated

Resource Plan proceeding, before the shutdown occurred. In its order, the MDPU stated it would investigate the costs associated with the shutdown in Fitchburg's March 2010 Cost of Gas Adjustment Clause filing when its actual costs will be reconciled with its projected costs.

Fitchburg—Other: On June 22, 2007, the MDPU opened an inquiry into revenue decoupling for gas and electric distribution utilities, generally defined as a ratemaking mechanism designed to eliminate or reduce the dependence of a utility's distribution revenues on sales. Revenue decoupling is intended to remove the disincentive a utility has to promote efforts to reduce energy consumption by its customers or to facilitate installation of distributed generation to displace electricity delivered by the utility. On July 16, 2008, the MDPU issued an order establishing a comprehensive plan for decoupling to be adopted by gas and electric distribution utilities on a going-forward basis, including company-specific rate cases. Lost base revenue recovery associated with incremental energy efficiency savings will be allowed through 2012 consistent with the MDPU's expectation that, with limited exceptions, distribution companies will be operating under decoupling plans by year-end 2012.

On February 11, 2009, the MA Supreme Judicial Court (SJC) issued its decision in the Attorney General's (AG) appeal of the MDPU orders relating to Fitchburg's recovery of bad debt expense. The SJC agreed with the AG that the MDPU was required to hold hearings regarding changes in Fitchburg's tariff and rates, and on that basis vacated the MDPU orders. The Court, however, declined to rule on an appropriate remedy, and remanded the cases back to the MDPU for consideration of that issue. This matter remains pending before the MDPU.

On July 2, 2008, the Governor of Massachusetts singed into law "The Green Communities Act" (the GC Act), energy policy legislation designed to substantially increase energy efficiency and the development of renewable energy resources in Massachusetts. The GC Act provides for utilities to recover in rates the incremental costs associated with its various mandated programs. Several regulatory proceedings have been initiated to implement various provisions of the GC Act, including provisions for each distribution company to file enhanced three-year energy efficiency investment plans, plans to establish smart grid pilot programs, proposals to purchase long-term contracts for renewable energy, and special tariffs to allow the net metering of customer-owned renewable generation. These matters, under review in separately designated dockets, remain pending, except for net metering tariffs which were approved by the MDPU effective December 1, 2009.

Northern Utilities: On December 1, 2008 Unitil completed the purchase of Northern Utilities from Bay State and Granite State from NiSource. Unopposed settlement agreements resolving all outstanding issues and recommending approval of the acquisition were approved by the NHPUC on October 10, 2008, and by the MPUC on November 5, 2008. Pursuant to its expanded authority over holding company mergers under the GC Act, the MDPU also reviewed the transaction and issued its approval on November 18, 2008.

The New Hampshire and Maine settlement agreements included the following provisions with respect to the accounting and rates of Northern Utilities:

- approval of Northern Utilities' accounting deferral and 10-year amortization of transaction costs and transition costs resulting from the Company's acquisition of Northern Utilities and the Company's agreement not to seek recovery of these costs, or the transaction or transition costs of any other utility subsidiary, in rates.
- agreement that synergy savings resulting from the acquisition of Northern Utilities will be retained by the Company until the next base rate change and then will flow to customers;
- agreement not to request a base rate change for Northern Utilities before November 1, 2010 unless (i) Northern Utilities' projected annual revenues are more than 8% below the level of total 2007 distribution revenues or (ii) the MPUC or NHPUC, as applicable, approves a plan to subject Granite State's rates to state regulation;
- agreement to allow Northern Utilities to recover prudently incurred integration costs for capitalized expenditures to build or upgrade systems or facilities required to independently operate Northern Utilities;
- agreement not to seek recovery in Northern Utilities' rates of any acquisition premium resulting from Unitil's acquisition of Northern Utilities and that any acquisition adjustment (positive or negative) shall be accounted for below the line for ratemaking purposes over a 10-year period;

- agreement to hold Northern Utilities' customers harmless for the elimination of historical accumulated deferred income tax (ADIT) liabilities resulting from its Internal Revenue Service Section 338(h)(10) election;
- agreement to use an imputed weighted cost of debt for ratemaking purposes until Northern Utilities' existing debt instruments would have matured; and
- agreement not to change Northern Utilities' existing depreciation rates for its Maine division until approved in the next general rate case.

The settlement agreements contained the following commitments related to Granite State:

- agreement to work collaboratively with the parties to the settlements to design and to conduct a comprehensive study of the issues and costs for modification of the physical, operational, regulatory, and corporate structure necessary for state regulation of Granite State and to provide a report within one year of the closing; and
- authorization for Northern Utilities to execute a firm service contract with Granite State for 100,000 Dekatherms (Dth) of capacity at Granite State's current recourse rate of $1.6666/ Dth for the period November 1, 2008 through October 31, 2010.

On November 21, 2008, the MPUC issued an order approving a settlement agreement resolving a number of Notices of Probable Violation ("NOPVs") of certain safety related procedures and rules by Northern Utilities. Under the Settlement, Northern Utilities will incur total expenditures of approximately $3.8 million for safety related improvements to Northern's distribution system to ensure compliance with the relevant state and federal gas safety laws, for which no rate recovery will be allowed. These compliance costs were accrued by Northern Utilities prior to the acquisition date and the remaining amount on the Company's balance sheet at December 31, 2009 was $2.3 million.

On June 27, 2008 the MPUC opened an investigation of Northern Utilities' cast iron pipe replacement activities and the benefits of an accelerated replacement program for cast iron distribution pipe remaining in the Portland and Westbrook service areas. Northern Utilities anticipates filing testimony and a proposal for a replacement program with the MPUC by mid-February of 2010, and that proceedings will continue on this matter during the second and third quarters of 2010.

Environmental Matters

The Company's past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. The Company believes it is in compliance with applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2009, there were no material losses reasonably likely to be incurred in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Fitchburg's Manufactured Gas Plant Site—Fitchburg continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. Fitchburg has proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection, which allows Fitchburg to work towards temporary closure of the site. A status of temporary closure requires Fitchburg to monitor the site until a feasible permanent remediation alternative can be developed and completed.

Fitchburg recovers the environmental response costs incurred at this former MGP site not recovered by insurance or other means in gas rates pursuant to terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, Fitchburg is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs. In addition, Fitchburg has filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. Any recovery that Fitchburg receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between Fitchburg and its gas customers.

Fitchburg is in the process of developing long-range plans for a feasible permanent remediation solution for the Sawyer Passway site, including alternatives for re-use of the site. Included on the Company's Consolidated Balance Sheet at December 31, 2009 and 2008 in Environmental Obligations are accrued liabilities totaling $12.0 million and $11.1 million, respectively, related to estimated future clean up costs for permanent remediation of the Sawyer Passway site. A corresponding Regulatory Asset was recorded to reflect that the recovery of this environmental remediation cost is probable through the regulatory process. The amounts recorded do not assume any amounts are recoverable from insurance companies or other third parties.

Northern Utilities Manufactured Gas Plant Sites—Northern Utilities has an extensive program to identify, investigate and remediate former MGP sites that were operated from the mid 1800s through the mid 1900s. In New Hampshire, MGP sites were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. This program has also documented the presence of MGP sites in Lewiston and Portland, Maine and a former MGP disposal site in Scarborough, Maine. Northern Utilities has worked with the environmental regulatory agencies in both New Hampshire and Maine to address environmental concerns with these sites.

Northern Utilities or others have substantially completed remediation of the Exeter, Rochester, Somersworth, Portsmouth, and Scarborough sites. The sites in Lewiston and Portland have been investigated and remedial activities are currently underway. Future operation, maintenance and remedial costs have been accrued, although there will be uncertainty regarding future costs until all remedial activities are completed.

The NHPUC and MPUC have approved the recovery of MGP environmental costs. For Northern Utilities' New Hampshire division, the NHPUC approved the recovery of MGP environmental costs over a seven-year amortization period. Northern Utilities believes material future costs will be recovered. For Northern Utilities' Maine division, the MPUC authorized the recovery of environmental remediation costs over a rolling five-year amortization schedule.

Included in the Company's Consolidated Balance Sheet at December 31, 2009 and 2008 are current and non-current accrued liabilities totaling $2.5 million and $1.6 million, respectively, associated with Northern Utilities environmental remediation obligations for these former MGP sites. A corresponding Regulatory Asset was recorded to reflect that the recovery of these environmental remediation cost is probable through the regulatory process.

The Company's ultimate liability for future environmental remediation costs, including MGP site costs, may vary from estimates, which may be adjusted as new information or future developments become available. Based on the Company's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, the Company does not believe that these environmental costs will have a material adverse effect on the Company's consolidated financial position or results of operations.

The following table shows the balances and activity in the Company's liability for Environmental Obligations for 2009. The liability for Environmental Obligations was initially recognized on the Company's Consolidated Balance Sheet at December 31, 2006.

ENVIRONMENTAL OBLIGATIONS

	December 31,	
(Millions)	**2009**	**2008**
Total Environmental Obligations—Balance at Beginning of Period	**$12.7**	$12.0
Changes in Estimates	**1.8**	—
Liabilities Assumed	**—**	1.6
Payments / Reductions	**—**	0.9
Total Environmental Obligations—Balance at End of Period	**14.5**	12.7
Less: Current Portion [1]	**0.2**	0.4
Environmental Obligations—noncurrent—Balance at End of Period	**$14.3**	$12.3

(1) Reflects amounts included in Other Current Liabilities on the Company's Consolidated Balance Sheets.

Note 7: Bad Debts

Unitil's distribution utilities are authorized by regulators to recover the costs of their energy commodity portion of bad debts through rate mechanisms. In 2009, 2008 and 2007, the Company recorded provisions for the energy commodity portion of bad debts of $1.9 million, $2.1 million and $1.5 million, respectively. These provisions were recognized in Purchased Electricity and Purchased Gas expense as the associated electric and gas utility revenues were billed. Purchased Electricity and Purchased Gas costs are recovered from customers through periodic rate reconciling mechanisms.

The following table shows the balances and activity in the Company's Allowance for Doubtful Accounts for 2007 – 2009 ($ millions):

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at Beginning of Period	(a) Other	Provision	Recoveries	Accounts Written Off	Balance at End of Period
Year Ended December 31, 2009						
Electric	**$1.1**	**$ —**	**$2.3**	**$0.2**	**$1.9**	**$1.7**
Gas	**1.8**	**0.5**	**1.4**	**0.3**	**3.3**	**0.7**
Other	**0.1**	**—**	**—**	**—**	**—**	**0.1**
	$3.0	**$0.5**	**$3.7**	**$0.5**	**$5.2**	**$2.5**
Year Ended December 31, 2008						
Electric	$1.0	$ —	$2.2	$0.2	$2.3	$1.1
Gas	0.2	1.4	1.4	0.2	1.4	1.8
Other	0.1	—	—	—	—	0.1
	$1.3	$1.4	$3.6	$0.4	$3.7	$3.0
Year Ended December 31, 2007						
Electric	$1.2	$ —	$1.4	$0.2	$1.8	$1.0
Gas	0.4	—	1.0	0.1	1.3	0.2
Other	0.1	—	—	—	—	0.1
	$1.7	$ —	$2.4	$0.3	$3.1	$1.3

(a) Includes Allowance for Doubtful Accounts of Northern Utilities and Granite State, which were acquired on December 1, 2008.

Note 8: Income Taxes

Federal Income Taxes were provided for the following items for the years ended December 31, 2009, 2008 and 2007, respectively:

	2009	2008	2007
Current Federal Tax Provision (Benefit) (000's):			
Operating Income	**$(3,226)**	$(2,914)	$4,522
Total Current Federal Tax Provision (Benefit)	**(3,226)**	(2,914)	4,522
Deferred Federal Tax Provision (Benefit) (000's)			
Accelerated Tax Depreciation	**8,716**	5,159	(444)
Regulatory Assets and Liabilities	**(1,308)**	1,534	(400)
Other, net	**(120)**	121	60
Total Deferred Federal Tax Provision (Benefit)	**7,288**	6,814	(784)
Total Federal Tax Provision	**$ 4,062**	$ 3,900	$3,738

The components of the Federal and State income tax provisions reflected as operating expenses in the accompanying consolidated statements of earnings for the years ended December 31, 2009, 2008 and 2007 are shown in the table below. In addition to the provisions for federal and state income taxes, the Company recorded provisions of $202,000, $165,000 and $203,000 in 2009, 2008 and 2007, respectively for New Hampshire Business Enterprise taxes, which are included in Local Property and Other Taxes on the consolidated statements of earnings.

Federal and State Tax Provision (Benefit) (000's)	2009	2008	2007
Federal			
Current	**$(3,226)**	$(2,914)	$4,522
Deferred	**7,288**	6,814	(784)
Total Federal Tax Provision	**4,062**	3,900	3,738
State			
Current	**1,376**	(42)	896
Deferred	**(218)**	592	(138)
Total State Tax Provision	**1,158**	550	758
Total Provision for Federal and State Income Taxes	**$ 5,220**	$ 4,450	$4,496

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

	2009	2008	2007
Statutory Federal Income Tax Rate	**34%**	34%	34%
Income Tax Effects of:			
State Income Taxes, Net	**6**	5	5
Utility Plant Differences	**(3)**	(6)	(4)
Other, Net	**(1)**	(1)	—
Effective Income Tax Rate	**36%**	32%	35%

Temporary differences, including the effect of deferred tax accounting on the assets and liabilities of Northern Utilities and Granite State acquired on December 1, 2008 (see Note 2 above), which gave rise to deferred tax assets and liabilities are shown below:

Deferred Income Taxes (000's)	2009	2008
Depreciation and Utility Plant	**$ 30,318**	$ 22,611
Regulatory Assets / Liabilities & Mechanisms	**29,094**	30,071
Retirement Benefit Obligations	**(22,537)**	(23,029)
Other, net	**2,896**	1,431
Total Deferred Income Tax Liabilities	**$ 39,771**	$ 31,084

The Company evaluated its tax positions at December 31, 2009 in accordance with the FASB Codification, and has concluded that no adjustment for recognition, derecognition, settlement and foreseeable future events to any unrecognized tax liabilities or assets as defined by the FASB Codification is required. The Company does not have any unrecognized tax positions for which it is reasonably possible that the total amounts recognized will significantly change within the next 12 months. The Company remains subject to examination by Federal, Massachusetts and New Hampshire tax authorities for the tax periods ended December 31, 2006; December 31, 2007; and December 31, 2008. Income tax filings for the year ended December 31, 2008 have been filed with the Internal Revenue Service (IRS). In its Federal Income Tax return filings for the year ended December 31, 2008, the Company recognized net operating loss (NOL) carrybacks against its Federal Income Tax returns for the years ended December 31, 2006 and 2007 in the amounts of $5.0 million and $6.7 million, respectively. These NOL carrybacks resulted in a refund to the Company of $4.0 million which was received in November 2009. According to Internal Revenue Code rules, NOL refunds in excess of $2.0 million fall under the jurisdiction of the Joint

Committee of Congress (Joint Committee) and are subject to review by the IRS and attorneys of the Joint Committee. As a result, on December 30, 2009, the Company received notice that its Federal Income Tax return filings for the years ended December 31, 2006, December 31, 2007, and December 31, 2008 are under examination by the IRS. The Company classifies penalty and interest expense related to income tax liabilities as an income tax expense. There are no material interest and penalties recognized in the statement of earnings or accrued on the balance sheet.

Note 9: Retirement Benefit Plans

The Company sponsors the following retirement benefit plans to provide certain pension and postretirement benefits for its retirees and current employees as follows:

- The Unitil Corporation Retirement Plan (Pension Plan)—The Pension Plan is a defined benefit pension plan covering substantially all of its employees. Under the Pension Plan, retirement benefits are based upon an employee's level of compensation and length of service. In September 2009, the Company amended the Pension Plan as follows:
  - The Pension Plan will be closed to non-union employees who are hired on or after January 1, 2010.
  - All non-union employees hired before January 1, 2010 will have a choice of either:
    - Remaining in the Pension Plan with the current set of benefits.

    or

    - Electing to move to Unitil Corporation's enhanced Tax Deferred Savings and Investment Plan. Non-union employees who elect this option will receive a frozen benefit from the existing Pension Plan for all of the benefits that they have accrued to December 31, 2008. This frozen benefit will not grow with future salary increases or future service. Non-union employees who elect this option will receive an enhanced employer matching contribution as well as a Company contribution in the Unitil Corporation Tax Deferred Savings and Investment Plan.
    - Union employees were not affected by this amendment.
- The Unitil Retiree Health and Welfare Benefits Plan (PBOP Plan)—The PBOP Plan provides health care and life insurance benefits to retirees. The Company has established Voluntary Employee Benefit Trusts (VEBT), into which it funds contributions to the PBOP Plan. In 2009, the Company made the following changes to the PBOP Plan.

Changes to Utility Workers Union of America Local 341 Benefits

A new Collective Bargaining Agreement ("Agreement") was entered into between Northern Utilities, Inc., Granite State Gas Transmission, Inc. and Utility Workers Union of America Local 341 ("UWUA") for the period April 1, 2009 through March 31, 2012. Included in the Agreement were changes to retiree medical benefits under the Plan. These changes are as follows:

- Retirees under sixty-five (65) years and their dependents will be covered by the medical benefits provided by the PBOP Plan. Early retirees will be responsible for contributing 20% of the premium for medical insurance for themselves and their dependents until age sixty-five (65).
- Retirees over sixty-five (65) years will be covered by a Supplement to Medicare Plan and will be responsible for a 20% premium cost sharing.
- For all employees hired on or after April 1, 2009, no post-65 retiree medical coverage will be provided.
- The Company is to determine post-65 drug coverage to be offered to all future retirees eligible for retiree medical.

These above-referenced retiree medical provisions were effective January 1, 2010.

Changes to Non-Union Employee Benefits

In September 2009, the Company announced the following PBOP Plan changes, effective January 1, 2010, for non-union employees:

- Employees who retire on or after January 1, 2010 will pay 20% of the cost of their retiree medical benefits.
- Employees who retire on or after January 1, 2010 will not receive any cash payments towards their Medicare premiums.
- Employees who are hired on or after January 1, 2010 will only be provided with company subsidized medical insurance until they reach age 65 and will not receive a Medicare supplement plan after age 65.

- The Unitil Corporation Supplemental Executive Retirement Plan (SERP)—The SERP is an unfunded retirement plan, with participation limited to executives selected by the Board of Directors.

Effective with the acquisitions of Northern Utilities and Granite State, the Company assumed the assets and obligations of the Northern Utilities and Granite State pension plans with respect to active union employees. All other active employees of Northern Utilities and Granite State effectively became members of the Company's Pension Plan as of the acquisitions closing date.

Certain employees of Northern Utilities qualified for participation in the Company's PBOP Plan effective with the acquisition closing date.

The following table includes the key assumptions used in determining the Company's benefit plan costs and obligations:

Used to Determine Plan costs for years ended December 31:	2009	2008	2007
Discount Rate [1]	**6.25%**	6.00%	5.50%
Rate of Compensation Increase	**3.50%**	3.50%	3.50%
Expected Long-term rate of return on plan assets	**8.50%**	8.50%	8.50%
Health Care Cost Trend Rate Assumed for Next Year	**8.00%**	8.50%	8.50%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%	4.00%
Year that Ultimate Health Care Cost Trend Rate is reached	**2017**	2017	2016
Effect of 1% Increase in Health Care Cost Trend Rate (000's)	**$ 735**	$ 675	$ 690
Effect of 1% Decrease in Health Care Cost Trend Rate (000's)	**$ (576)**	$ (531)	$ (539)

(1) As a result of the changes to the PBOP Plan in September 2009 discussed above, the Company was required to update the discount rate used in determining the PBOP Plan costs for the remainder of 2009. Based on the market rates for long-term bonds at that time, the Company assumed a discount rate of 5.50% for the PBOP Plan from September through December of 2009.

Used to Determine Benefit Obligations at December 31:			
Discount Rate	**5.75%**	6.25%	6.00%
Rate of Compensation Increase	**3.50%**	3.50%	3.50%
Health Care Cost Trend Rate Assumed for Next Year	**7.50%**	8.00%	8.50%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%	4.00%
Year that Ultimate Health care Cost Trend Rate is reached	**2017**	2017	2017
Effect of 1% Increase in Health Care Cost Trend Rate (000's)	**$ 5,887**	$ 6,084	$ 6,282
Effect of 1% Decrease in Health Care Cost Trend Rate (000's)	**$(4,704)**	$(4,890)	$(5,030)

The Discount Rate assumptions used in determining retirement plan costs and retirement plan obligations are based on a market average of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. For 2009, 2008 and 2007, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $300,000, $200,000 and $200,000, respectively, in the Net Periodic Benefit Cost (NPBC). The Rate of Compensation Increase assumption used for 2009, 2008 and 2007 was 3.50%, based on the expected long-term increase in compensation costs for personnel covered by the plans.

The following table provides the components of the Company's Retirement plan costs ($000's):

	Pension Plan			PBOP Plan			SERP		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Service Cost	**$ 2,282**	$ 1,979	$ 1,968	**$ 1,417**	$ 1,447	$ 1,431	**$217**	$150	$163
Interest Cost	**4,294**	3,800	3,336	**2,269**	2,212	2,057	**182**	126	118
Expected Return on Plan Assets	**(4,432)**	(4,390)	(4,195)	**(440)**	(325)	(245)	**—**	—	—
Prior Service Cost Amortization	**264**	119	106	**1,634**	1,390	1,360	**(2)**	(1)	(2)
Transition Obligation Amortization	**—**	—	—	**21**	21	21	**—**	—	—
Curtailment Loss	**32**	—	—	**—**	—	—	**—**	—	—
Actuarial Loss Amortization	**1,598**	1,274	1,345	**—**	—	70	**70**	24	44
Sub-total	4,038	2,782	2,560	4,901	4,745	4,694	467	299	323
Amounts Capitalized and Deferred	**(1,409)**	(893)	(873)	**(1,642)**	(1,872)	(2,033)	**—**	—	—
NPBC Recognized	**$ 2,629**	$ 1,889	$ 1,687	**$ 3,259**	$ 2,873	$ 2,661	**$467**	$299	$323

The estimated amortizations related to Actuarial Loss and Prior Service Cost included in the Company's Retirement plan costs over the next fiscal year is $2.7 million, $1.6 million and $0.1 million for the Pension, PBOP and SERP plans, respectively.

The Company bases the actuarial determination of pension expense on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a three-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the fair value of assets. Since the market-related value of assets recognizes gains or losses over a three-year period, the future value of the market-related assets will be impacted as previously deferred gains or losses are recognized. The Company's pension expense for the years 2009, 2008 and 2007 before capitalization and deferral was $4.0 million, $2.8 million and $2.6 million, respectively. Had the Company used the fair value of assets instead of the market-related value, pension expense for the years 2009, 2008 and 2007 would have been $6.3 million, $2.9 million and $2.5 million respectively.

The following table represents information on the plans' assets, projected benefit obligations (PBO), and funded status ($000's):

	Pension Plan		PBOP Plan		SERP	
Change in Plan Assets:	2009	2008	2009	2008	2009	2008
Plan Assets at Beginning of Year	**$ 39,124**	$ 52,162	**$ 4,361**	$ 4,144	**$ —**	$ —
Actual Return on Plan Assets	**8,017**	(15,542)	**874**	(784)	**—**	—
Employer Contributions	**4,227**	2,800	**2,800**	2,700	**53**	59
Participant Contributions	**—**	—	**2**	—	**—**	—
Acquired Plan Assets	**(544)**	2,500	**—**	—	**—**	—
Benefits Paid	**(3,742)**	(2,796)	**(1,731)**	(1,699)	**(53)**	(59)
Plan Assets at End of Year	**$ 47,082**	$ 39,124	**$ 6,306**	$ 4,361	**$ —**	$ —
Change in PBO:						
PBO at Beginning of Year	**$ 70,386**	$ 64,429	**$ 37,655**	$ 37,983	**$ 2,930**	$ 2,144
Service Cost	**2,282**	1,979	**1,417**	1,447	**217**	150
Interest Cost	**4,294**	3,800	**2,269**	2,212	**182**	126
Participant Contributions	**—**	—	**2**	—	**—**	—
Plan Amendments	**—**	—	**(2,382)**	—	**—**	—
Estimated Acquired Obligations	**—**	4,442	**—**	2,610	**—**	—
Curtailment Gain	**(599)**	—	**—**	—	**—**	—
Benefits Paid	**(3,742)**	(2,796)	**(1,731)**	(1,699)	**(53)**	(59)
Actuarial (Gain) or Loss	**6,667**	(1,468)	**(1,536)**	(4,898)	**703**	569
PBO at End of Year	**$ 79,288**	$ 70,386	**$ 35,694**	$ 37,655	**$ 3,979**	$ 2,930
Funded Status: Assets vs PBO	**$(32,206)**	$(31,262)	**$(29,388)**	$(33,294)	**$(3,979)**	$(2,930)

The Company has recorded on its balance sheets as a liability the underfunded status of their retirement benefit obligations based on the projected benefit obligation. The Company has recognized Regulatory Assets of $43.7 million and $45.5 million at December 31, 2009 and 2008, respectively, to recognize the future collection of these plan obligations in electric and gas rates.

The Accumulated Benefit Obligation (ABO) is required to be disclosed for all plans where the ABO is in excess of plan assets. The difference between the PBO and the ABO is that the PBO includes projected compensation increases. The ABO for the Pension Plan was $69.0 million and $61.1 million as of December 31, 2009 and 2008, respectively. The ABO for the SERP was $0.5 million and $0.5 million as of December 31, 2009 and 2008, respectively. For the PBOP Plan, the ABO and PBO are the same.

On August 17, 2006, the Pension Protection Act of 2006 (PPA) was signed into law. Included in the PPA were new minimum funding rules which went into effect for plan years beginning in 2008. The funding target was 100% of a plan's liability (as determined under the PPA) with any shortfall amortized over seven years, with lower (92% – 100%) funding targets available to well-funded plans during the transition period. Due to the significant declines in the valuation of capital markets during 2008, the Worker, Retiree, and Employer Recovery Act of 2008 (Recovery Act) was signed into law on December 23, 2008. Included in the Recovery Act are temporary modifications to the minimum funding rules set forth in the PPA such that all plans, except those that were subject to deficit reduction contribution requirements in 2007, are allowed to amortize any shortfall from the lower funding targets, rather than the 100% target, for the 2008 – 2010 plan years. This did not affect the Company's Pension Plan in 2009 as its Pension Plan was 94% funded under the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as of January 1, 2009 and met the exemption from the shortfall amortization. The Company expects to contribute approximately $4.0 million to fund its Pension Plan in 2010.

The following table represents employer contributions and benefit payments ($000's). There were no participant contributions.

	Pension Plan			PBOP Plan			SERP		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Employer Contributions	**$4,227**	$2,800	$2,800	**$2,800**	$2,700	$2,500	**$53**	$59	$72
Benefit Payments	**$3,742**	$2,796	$2,645	**$1,731**	$1,699	$1,497	**$53**	$59	$72

The following table represents estimated future benefit payments ($000's).

Estimated Future Benefit Payments			
	Pension	PBOP	SERP
2010	$ 3,585	$ 1,309	$ 52
2011	3,685	1,431	51
2012	3,906	1,526	50
2013	4,138	1,610	363
2014	4,376	1,725	362
2015 - 2019	$25,369	$10,047	$1,782

The Expected Long-Term Rate of Return on Pension Plan assets assumption used by the Company is developed based on input from actuaries and investment managers. The Company's Expected Long-Term Rate of Return on Pension Plan assets is based on target investment allocation of 57% in common stock equities and 43% in fixed income securities. The Company's Expected Long-Term Rate of Return on PBOP Plan assets is based on target investment allocation of 55% in common stock equities and 45% in fixed income securities. The actual investment allocations are shown in the tables below.

Pension Plan	Target Allocation 2010	Actual Allocation at December 31, 2009	2008	2007
Equity Securities	57%	**59%**	54%	57%
Debt Securities	43%	**40%**	35%	43%
Other	0%	**1%**	11%	0%
Total		**100%**	100%	100%

PBOP Plan	Target Allocation 2010	Actual Allocation at December 31, 2009	2008	2007
Equity Securities	55%	**56%**	56%	0%
Debt Securities	45%	**44%**	44%	0%
Other (1)	0%	**0%**	0%	100%
Total		**100%**	100%	100%

(1) Represents investments in Money Market Funds.

The combination of these target allocations and expected returns resulted in the overall assumed long-term rate of return of 8.50% for 2009. The Company evaluates the actuarial assumptions, including the expected rate of return, at least annually. The desired investment objective is a long-term rate of return on assets that is approximately 5 – 6% greater than the assumed rate of inflation as measured by the Consumer Price Index. The target rate of return for the Plans has been based upon an analysis of historical returns supplemented with an economic and structural review for each asset class.

The FASB Codification defines fair value, and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the FASB Codfiication are described below:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Valuations based on quoted prices available in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are directly observable, and inputs derived principally from market data.

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

Valuation Techniques

There have been no changes in the valuation techniques used during the current period.

Assets measured at fair value on a recurring basis for the Pension Plan as of December 31, 2009 are as follows ($000's):

	Fair Value Measurements at Reporting Date Using			
Description	**Balance as of December 31, 2009**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Pension Plan Assets:				
Trading Securities	**$46,667**	$46,667	$—	$—
Escrow	**415**	415		
Total Assets	**$47,082**	$47,082	$—	$—

Assets measured at fair value on a recurring basis for the PBOP Plan as of December 31, 2009 are as follows ($000's):

	Fair Value Measurements at Reporting Date Using			
Description	**Balance as of December 31, 2009**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
PBOP Plan Assets:				
Trading Securities	**$6,306**	$6,306	$—	$—
Total Assets	**$6,306**	$6,306	$—	$—

Employee 401(k) Tax Deferred Savings Plan—The Company sponsors the Unitil Corporation Tax Deferred Savings and Investment Plan (the 401(k) Plan) under Section 401(k) of the Internal Revenue Code and covering substantially all of the Company's employees. Participants may elect to defer current compensation by contributing to the plan. Employees may direct, at their sole discretion, the investment of their savings plan balances (both the employer and employee portions) into a variety of investment options, including a Company common stock fund.

In September 2009, the Company amended the Plan as follows:

For current non-union employees who elect to stay with the Company's existing Pension Plan, there will be no changes in the 401(k) Plan. For those employees, the Company will continue to match contributions, with a maximum matching contribution of 3% of current compensation and those participants will be 100% vested in these company matching contributions once they have completed three years of service.

For non-union employees who are hired on or after January 1, 2010, and for non-union employees who elect to move from the Company's existing Pension Plan and accept a frozen pension benefit, the Company will provide the following enhancements to the 401(k) Plan:

- The Company will contribute 4% of base pay each year, regardless of whether or not the non-union employee elects to contribute to the 401(k) Plan.
- The Company will increase the matching contributions from 3% of base pay to 6% of base pay. This will be a 100% match of the first 6% of the non-union employee's contributions.
- All Company contributions will be 100% vested at all times.
- New non-union employees will be automatically enrolled in the 401(k) Plan following the completion of 1,000 hours of service, with the automatic employee contribution rate of 3%. This contribution rate will automatically increase by 1% on January 1st of each year until the non-union employee's contribution is 10% of pay. Non-union employees may elect to opt-out of the automatic enrollment and/or automatic increase features of the enhanced 401(k) Plan.

The Company's share of contributions to the 401(k) Plan was $671,000, $542,000 and $533,000 for the years ended December 31, 2009, 2008, and 2007, respectively.

Note 10: Segment Information

Unitil reports four segments: utility electric operations, utility gas operations, other, and non-regulated. Unitil's principal business is the local distribution of electricity in the southeastern seacoast and state capital regions of New Hampshire and the greater Fitchburg area of north central Massachusetts and the local distribution of natural gas in southeastern New Hampshire, portions of southern Maine to the Lewiston-Auburn area and in the greater Fitchburg area of north central Massachusetts. Unitil has three distribution utility subsidiaries, Unitil Energy, which operates in New Hampshire, Fitchburg, which operates in Massachusetts and Northern Utilities, which operates in New Hampshire and Maine.

Granite State is an interstate natural gas transmission pipeline company, operating 87 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to three major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north. Granite State derives its revenues principally from the transmission services provided to Northern Utilities and, to a lesser extent, third-party marketers.

Unitil Resources is the Company's wholly owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to large commercial and industrial customers in the northeastern United States. Unitil Realty and Unitil Service provide centralized facilities, operations and administrative services to support the affiliated Unitil companies.

Unitil Realty, Unitil Service and the holding company are included in the "Other" column of the table below. Unitil Service provides centralized management and administrative services, including information systems management and financial record keeping. Unitil Realty owns certain real estate, principally the Company's corporate headquarters. The earnings of the holding company are principally derived from income earned on short-term investments and real property owned for Unitil and its subsidiaries' use. Unitil Resources and Usource are included in the Non-Regulated column below.

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

The following table provides significant segment financial data for the years ended December 31, 2009, 2008 and 2007 (Millions):

Year Ended December 31, 2009	Electric	Gas	Other	Non-Regulated	Total
Revenues	**$209.9**	**$152.8**	**$ —**	**$ 4.3**	**$367.0**
Interest Income	**3.6**	**0.5**	**0.7**	**—**	**4.8**
Interest Expense	**9.1**	**9.7**	**1.8**	**—**	**20.6**
Depreciation & Amortization Expense	**14.0**	**12.8**	**0.6**	**—**	**27.4**
Income Tax Expense (Benefit)	**2.4**	**1.9**	**(0.1)**	**1.0**	**5.2**
Segment Profit (Loss)	**4.9**	**3.3**	**0.1**	**1.6**	**9.9**
Segment Assets	**347.9**	**367.4**	**7.3**	**2.6**	**725.2**
Capital Expenditures	**27.7**	**30.0**	**1.0**	**—**	**58.7**
Year Ended December 31, 2008					
Revenues	$227.5	$ 56.9	$ —	$ 3.8	$288.2
Interest Income	2.2	0.1	0.3	—	2.6
Interest Expense	8.7	2.3	2.1	—	13.1
Depreciation & Amortization Expense	13.1	5.2	0.8	—	19.1
Income Tax Expense (Benefit)	1.9	2.6	(0.3)	0.2	4.4
Segment Profit (Loss)	5.2	4.3	(0.2)	0.3	9.6
Segment Assets	359.2	363.9	9.1	1.0	733.2
Capital Expenditures	19.7	7.6	1.0	—	28.3
Year Ended December 31, 2007					
Revenues	$225.0	$ 34.2	$ —	$ 3.7	$262.9
Interest Income	2.8	0.1	0.5	—	3.4
Interest Expense	9.6	2.1	1.3	—	13.0
Depreciation & Amortization Expense	12.6	3.8	1.3	0.1	17.8
Income Tax Expense (Benefit)	3.8	0.4	0.1	0.2	4.5
Segment Profit (Loss)	7.3	1.0	—	0.3	8.6
Segment Assets	351.9	110.3	11.7	0.7	474.6
Capital Expenditures	26.2	6.1	0.2	—	32.5

Note 11: Quarterly Financial Information (unaudited; Millions, except per share data)

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

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Total Operating Revenues	**$135.6**	$ 71.9	**$ 71.5**	$ 59.4	**$ 70.4**	$ 69.1	**$ 89.5**	$ 87.8
Operating Income	**$ 13.9**	$ 6.0	**$ 4.2**	$ 4.2	**$ 3.4**	$ 3.9	**$ 4.6**	$ 6.4
Net Income (Loss) Applicable to Common	**$ 9.1**	$ 3.3	**$ 0.2**	$ 1.6	**$ (0.6)**	$ 1.5	**$ 1.2**	$ 3.2
	Per Share Data:							
Earnings Per Common Share	**$ 1.14**	$ 0.57	**$ 0.03**	$ 0.28	**$ (0.06)**	$ 0.27	**$ 0.11**	$ 0.53
Dividends Paid Per Common Share	**$0.345**	$0.345	**$0.345**	$0.345	**$0.345**	$0.345	**$0.345**	$0.345

Note 12: Unaudited Pro Forma Financial Data Related To Acquisitions

On December 1, 2008, the Company acquired Northern Utilities and Granite State, as discussed in Note 2. Had the results of operations for Northern Utilities and Granite State been combined with the Company as of the beginning of 2007, the Company's pro forma results for 2008 and 2007 would have been as follows:

	Year ended December 31,	
(Millions, except per share amounts) (Unaudited)	**2008**	**2007**
Revenues	**$395.5**	$396.2
Earnings Applicable to Common Shareholders	**$ 8.3**	$ 11.5
Earnings per Share		
Basic	**$ 0.77**	$ 1.08
Diluted	**$ 0.77**	$ 1.08

The Unaudited Pro Forma Financial Data includes non-recurring charges to operating expenses of $1.7 million, after tax, related to compliance violation penalties incurred by Northern Utilities in 2007 and $2.5 million, after tax, related to compliance violation penalties incurred by Northern Utilities in 2008.

The Unaudited Pro Forma Financial Data are presented for illustrative purposes only and do not indicate the financial results of the combined companies had the companies actually been combined and had the impact of possible revenue enhancements and expense efficiencies, among other factors, been considered, and is not intended to be a projection of future results.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Management of the Company, under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2009. Based upon this evaluation, the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded as of December 31, 2008 that the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) are effective.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). In addition, management is required to report their assessment, including their evaluation criteria, on the design and operating effectiveness of the Company's internal control over financial reporting in this Form 10-K.

The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. The Company's internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes policies and procedures which provide reasonable assurances that transactions are properly initiated, authorized, recorded, reported and disclosed, and provide reasonable assurances regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During 2009, management conducted an assessment of the Company's internal control over financial reporting reflected in the financial statements, based upon criteria established in the "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on management's assessment, which included a comprehensive review of the design and operating effectiveness of the Company's internal control over financial reporting, management believes the Company's internal control over financial reporting is designed and operating effectively as of December 31, 2009.

The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by Caturano and Company, an independent registered public accounting firm. Their report appears in Item 8.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. Other Information

On December 18, 2009, both Unitil Energy and Northern Utilities priced long-term financings scheduled to close in the first quarter of 2010:

(iii) Unitil Energy priced $15,000,000 of First Mortgage Bonds, through a private placement marketing process to institutional investors. The First Mortgage Bonds were priced at a coupon rate of 5.24% and have a final maturity of ten years. Unitil Energy plans to use the net proceeds from this long-term financing to repay short-term debt and for general corporate purposes. Unitil Energy anticipates closing this long-term financing in March 2010.

(iv) Northern Utilities priced $25,000,000 of Senior Unsecured Notes, through a private placement marketing process to institutional investors. The Senior Unsecured Notes were priced at a coupon rate of 5.29% and have a final maturity of ten years. Northern Utilities plans to use the net proceeds from this long-term financing to repay short-term debt and for general corporate purposes. Northern Utilities anticipates closing this long-term financing in March 2010.

The Unitil Energy and Northern Utilities securities offered will not be, and have not been, registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this Item is set forth in Part I, Item 1 of this Form 10-K. Information regarding the Company's Code of Ethics is set forth in the "Corporate Governance and Policies of the Board" section of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 15, 2010.

Item 11. Executive Compensation

Information required by this Item is set forth in the "Compensation Discussion and Analysis" and "Compensation of Named Executive Officers" sections of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 15, 2010.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item is set forth in the "Beneficial Ownership" and "As to the Election of Directors" sections of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 15, 2010, as well as the Equity Compensation Plan Benefit Information table in Part II, Item 5 of this Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this Item is set forth in the "Transactions with Related Persons" section of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 15, 2010.

Item 14. Principal Accountant Fees and Services

Information required by this Item is set forth in the "Principal Accountant Fees and Services" section of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 15, 2010.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) and (2) – **LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES**

The following financial statements are included herein under Part II, Item 8, Financial Statements and Supplementary Data:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets—December 31, 2009 and 2008
- Consolidated Statements of Earnings for the years ended December 31, 2009, 2008, and 2007
- Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008, and 2007
- Consolidated Statements of Changes in Common Stock Equity for the years ended December 31, 2009, 2008, and 2007
- Notes to Consolidated Financial Statements

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, are not applicable, or information required is included in the financial statements or notes thereto and, therefore, have been omitted.

(3) – **LIST OF EXHIBITS**

Exhibit Number	Description of Exhibit	Reference*
3.1	Articles of Incorporation of the Company.	Exhibit 3.1 to Form S-14 Registration Statement 2-93769
3.2	Articles of Amendment to the Articles of Incorporation Filed on March 4, 1992.	Exhibit 3.2 to Form 10-K for 1991
3.3	Articles of Amendment to the Articles of Incorporation Filed on September 23, 2008.	Exhibit 3.3 to Form S-3/A dated November 25, 2008
3.4	By-laws of the Company.	Exhibit 4 to Form S-8 Registration Statement 333-73327
3.5	Articles of Exchange of Concord Electric Company (CECo), Exeter & Hampton Electric Company (E&H) and the Company.	Exhibit 3.3 to 10-K for 1984
3.6	Articles of Exchange of CECo, E&H, and the Company - Stipulation of the Parties Relative to Recordation and Effective Date.	Exhibit 3.4 to Form 10-K for 1984
3.7	The Agreement and Plan of Merger dated March 1, 1989 among the Company, Fitchburg Gas and Electric Light Company (Fitchburg) and UMC Electric Co., Inc. (UMC).	Exhibit 25(b) to Form 8-K dated March 1, 1989
3.8	Amendment No. 1 to The Agreement and Plan of Merger dated March 1, 1989 among the Company, Fitchburg and UMC.	Exhibit 28(b) to Form 8-K dated December 14, 1989

Exhibit Number	Description of Exhibit	Reference*
4.1	Twelfth Supplemental Indenture of Unitil Energy Systems, Inc., successor to Concord Electric Company, dated as of December 2, 2002, amending and restating the Concord Electric Company Indenture of Mortgage and Deed of Trust dated as of July 15, 1958.	Exhibit 4.1 to Form 10-K for 2002
4.2	Fitchburg Note Agreement dated November 30, 1993 for the 6.75% Notes due November 23, 2023.	Exhibit 4.18 to Form 10-K for 1993
4.3	Fitchburg Note Agreement dated January 26, 1999 for the 7.37% Notes due January 15, 2028.	Exhibit 4.25 to Form 10-K for 1999
4.4	Fitchburg Note Agreement dated June 1, 2001 for the 7.98% Notes due June 1, 2031.	Exhibit 4.6 to Form 10-Q for June 30, 2001
4.5	Unitil Realty Corp. Note Purchase Agreement dated July 1, 1997 for the 8.00% Senior Secured Notes due August 1, 2017.	Exhibit 4.22 to Form 10-K for 1997
4.6	Fitchburg Note Agreement dated October 15, 2003 for the 6.79% Notes due October 15, 2025.	Exhibit 4.7 to Form 10-K for 2003
4.7	Fitchburg Note Agreement dated December 21, 2005 for the 5.90% Notes due December 15, 2030.	**
4.8	Thirteenth Supplemental Indenture of Unitil Energy Systems, Inc., dated as of September 26, 2006.	**
4.9	Unitil Corporation Note Purchase Agreement, dated as of May 2, 2007, for the 6.33% Senior Notes due May 1, 2022.	**
4.10	Northern Utilities Note Purchase Agreement, dated as of December 3, 2008, for the 6.95% Senior Notes, Series A due December 3, 2018 and the 7.72% Senior Notes, Series B due December 3, 2038.	Exhibit 4.1 to Form 8-K dated December 3, 2008
4.11	Granite State Note Purchase Agreement, dated as of December 15, 2008, for the 7.15% Senior Notes due December 15, 2018	Exhibit 99.1 to Form 8-K dated December 15, 2008
10.1	Unitil System Agreement dated June 19, 1986 providing that Unitil Power will supply wholesale requirements electric service to CECo and E&H.	Exhibit 10.9 to Form 10-K for 1986
10.2	Supplement No. 1 to Unitil System Agreement providing that Unitil Power will supply wholesale requirements electric service to CECo and E&H.	Exhibit 10.8 to Form 10-K for 1987
10.3	Transmission Agreement between Unitil Power Corp. and Public Service Company of New Hampshire, effective November 11, 1992.	Exhibit 10.6 to Form 10-K for 1993
10.4***	Amended and Restated Form of Severance Agreement between the Company and the persons listed at the end of such Agreement.	Exhibit 10.2 to Form 8-K dated June 19, 2008
10.5***	Amended and Restated Form of Severance Agreement between the Company and the persons listed at the end of such Agreement.	Exhibit 10.3 to Form 8-K dated June 19, 2008
10.6***	Amended and Restated Unitil Corporation Supplemental Executive Retirement Plan effective as of December 31, 2007.	Exhibit 10.4 to Form 8-K dated June 19, 2008

Exhibit Number	Description of Exhibit	Reference*
10.7***	Unitil Corporation 1998 Stock Option Plan.	Exhibit 10.12 to Form 10-K for 1998
10.8***	Amended and Restated Unitil Corporation Management Incentive Plan effective as of June 19, 2008 as further amended on December 1, 2008.	Exhibit 10.8 to Form 10-K for 2008
10.9	Entitlement Sale and Administrative Service Agreement with Select Energy.	Exhibit 10.14 to Form 10-K for 1999
10.10***	Unitil Corporation 2003 Restricted Stock Plan.	Exhibit 10.16 to Form 10-K for 2002
10.11	Portfolio Sale and Assignment and Transition Service and Default Service Supply Agreement By and Among Unitil Power Corp., Unitil Energy Systems, Inc. and Mirant Americas Energy Marketing, LP.	Exhibit 10.17 to Form 10-K for 2002
10.12	Unitil Corporation Tax Deferred Savings and Investment Plan—Trust Agreement.	Exhibit 10.1 to Form 10-Q for September 30, 2004
10.13***	Amended and Restated Employment Agreement effective as of November 1, 2009 by and between Unitil Corporation and Robert G. Schoenberger.	Exhibit 10.1 to Form 8-K dated September 23, 2009
10.14	Credit Agreement between Unitil Corporation and Bank of America, N.A. dated November 26, 2008	Exhibit 10.1 to Form 8-K dated November 26, 2008
10.15	Amendment Agreement dated as of January 2, 2009 to the Credit Agreement between Unitil Corporation and Bank of America, N.A. dated November 26, 2008	Exhibit 10.1 to Form 8-K dated January 2, 2009
10.16	Amendment Agreement dated as of October 13, 2009 to the Credit Agreement between Unitil Corporation and Bank of America, N.A. dated November 26, 2008	Exhibit 10.1 to Form 8-K dated October 13, 2009
10.17	Credit Agreement between Unitil Corporation and Royal Bank of Canada dated December 1, 2008	Exhibit 10.2 to Form 8-K dated November 26, 2008
10.18	Transition Services Agreement between Unitil Corporation and NiSource, Inc. dated December 1, 2008	Exhibit 10.3 to Form 8-K dated November 26, 2008
10.19	Parent Guaranty of Unitil Corporation for the Granite State 7.15% Senior Notes due December 15, 2018	Exhibit 10.1 to Form 8-K dated December 15, 2008
11.1	Statement Re: Computation in Support of Earnings per Share For the Company.	Filed herewith
12.1	Statement Re: Computation in Support of Ratio of Earnings to Fixed Charges for the Company.	Filed herewith
21.1	Statement Re: Subsidiaries of Registrant.	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm.	Filed herewith
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith

Exhibit Number	Description of Exhibit	Reference*
31.3	Certification of Chief Accounting Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

* The exhibits referred to in this column by specific designations and dates have heretofore been filed with the Securities and Exchange Commission under such designations and are hereby incorporated by reference.

** In accordance with Item 601(b)(4)(iii)(A) of Federal Securities Regulation S-K, the instrument defining the debt of the Registrant and its subsidiary, described above, has been omitted but will be furnished to the Commission upon request.

*** These exhibits represent a management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITIL CORPORATION

Date February 10, 2010

By /s/ ROBERT G. SCHOENBERGER

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

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ ROBERT G. SCHOENBERGER **Robert G. Schoenberger**	Principal Executive Officer; Director	February 10, 2010
/s/ MARK H. COLLIN **Mark H. Collin**	Principal Financial Officer	February 10, 2010
/s/ LAURENCE M. BROCK **Laurence M. Brock**	Principal Accounting Officer	February 10, 2010
/s/ MICHAEL J. DALTON **Michael J. Dalton**	Director	February 10, 2010
/s/ ALBERT H. ELFNER, III **Albert H. Elfner, III**	Director	February 10, 2010
/s/ M. BRIAN O'SHAUGHNESSY **M. Brian O'Shaughnessy**	Director	February 10, 2010
/s/ WILLIAM D. ADAMS **William D. Adams**	Director	February 10, 2010
/s/ DR. SARAH P. VOLL **Dr. Sarah P. Voll**	Director	February 10, 2010
/s/ EBEN S. MOULTON **Eben S. Moulton**	Director	February 10, 2010
/s/ DAVID P. BROWNELL **David P. Brownell**	Director	February 10, 2010
/s/ EDWARD F. GODFREY **Edward F. Godfrey**	Director	February 10, 2010
/s/ MICHAEL B. GREEN **Michael B. Green**	Director	February 10, 2010
/s/ DR. ROBERT V. ANTONUCCI **Dr. Robert V. Antonucci**	Director	February 10, 2010

Exhibit 11.1

UNITIL CORPORATION

COMPUTATION IN SUPPORT OF EARNINGS PER SHARE

	Year Ended December 31,		
	2009	2008	2007
EARNINGS PER SHARE (000's, except per share data)			
Net Income	**$10,049**	$9,735	$8,746
Less: Dividend Requirements on Preferred Stock	**134**	135	136
Net Income Applicable to Common Stock	**$ 9,915**	$9,600	$8,610
Average Number of Common Shares Outstanding—Basic	**9,647**	5,830	5,659
Dilutive Effect of Stock Options and Restricted Stock	**—**	—	13
Average Number of Common Shares Outstanding—Diluted	**9,647**	5,830	5,672
Earnings Per Share—Basic	**$ 1.03**	$ 1.65	$ 1.52
Earnings Per Share—Diluted	**$ 1.03**	$ 1.65	$ 1.52

Exhibit 12.1

UNITIL CORPORATION

COMPUTATION IN SUPPORT OF RATIO OF EARNINGS TO FIXED CHARGES

	Year Ended December 31,				
(000's, except ratios)	**2009**	2008	2007	2006	2005
Earnings:					
Net Income, per Consolidated Statements of Earnings	**$10,049**	$ 9,735	$ 8,746	$ 8,033	$ 8,553
Federal and State Income Taxes included in Operations	**5,220**	4,450	4,482	4,266	4,275
Interest on Long-Term Debt	**17,961**	11,795	10,919	9,404	8,319
Amortization of Debt Discount Expense	**233**	151	136	112	104
Other Interest	**2,474**	1,156	1,949	1,675	1,046
Total	**$35,937**	$27,287	$26,232	$23,490	$22,297
Fixed Charges:					
Interest on Long-Term Debt	**$17,961**	$11,795	$10,919	$ 9,404	$ 8,319
Amortization of Debt Discount Expense	**233**	151	136	112	104
Other Interest	**2,474**	1,156	1,949	1,675	1,046
Pre-tax Preferred Stock Dividend Requirements	**208**	199	213	208	234
Total	**$20,876**	$13,301	$13,217	$11,399	$ 9,703
Ratio of Earnings to Fixed Charges	**1.72**	2.05	1.98	2.06	2.30

Exhibit 21.1

Subsidiaries of Registrant

The Company or the registrant has eight wholly-owned subsidiaries, seven of which are corporations organized under the laws of the State of New Hampshire: Unitil Energy Systems, Inc., Northern Utilities, Inc., Granite State Gas Transmission, Inc., Unitil Power Corp., Unitil Realty Corp., Unitil Resources, Inc. and Unitil Service Corp. The eighth, Fitchburg Gas and Electric Light Company, is organized under the laws of the State of Massachusetts. Usource, Inc., which is a corporation organized under the laws of the State of Delaware, is a wholly-owned subsidiary of Unitil Resources, Inc. Usource, Inc. is the sole member of Usource L.L.C., which is a corporation organized under the laws of the State of Delaware.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of Unitil Corporation and subsidiaries on Form S-3 (File No. 333-158537 effective April 29, 2009), Form S-3 (File No. 333-152823 effective December 5, 2008), Form S-8 (File No. 333-114978 effective April 29, 2004), Form S-3 (File No. 333-42264 effective July 26, 2000) and on Form S-8 (File No. 333-42266 effective July 26, 2000) of our report dated February 10, 2010, relating to the consolidated financial statements of Unitil Corporation and subsidiaries (the Company) as of December 31, 2009 and 2008 and the three years ending December 31, 2009 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, appearing in the Annual Report of the Company on Form 10-K for the year ended December 31, 2009.

Caturano and Company P.C.

Boston, Massachusetts
February 10, 2010

Exhibit 31.1

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert G. Schoenberger, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 10, 2010

/s/ Robert G. Schoenberger

Robert G. Schoenberger
Chief Executive Officer and President

Exhibit 31.2

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark H. Collin, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 10, 2010

/s/ Mark H. Collin
Mark H. Collin
Chief Financial Officer

Exhibit 31.3

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Laurence M. Brock, certify that:

1) I have reviewed this annual report on Form 10-K of Unitil Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 10, 2010

/s/ Laurence M. Brock

Laurence M. Brock
Chief Accounting Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Unitil Corporation (the "Company") on Form 10-K for the year ending December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned Robert G. Schoenberger, Chief Executive Officer and President, Mark H. Collin, Chief Financial Officer and Laurence M. Brock, Chief Accounting Officer, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Signature	Capacity	Date
/s/ Robert G. Schoenberger Robert G. Schoenberger	Chief Executive Officer and President	February 10, 2010
/s/ Mark H. Collin Mark H. Collin	Chief Financial Officer	February 10, 2010
/s/ Laurence M. Brock Laurence M. Brock	Chief Accounting Officer	February 10, 2010

INFORMATION

2010 Annual Meeting

The Annual Meeting of Shareholders is scheduled to be held at the office of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Thursday, April 15, 2010, at 10:30 a.m.

Investor Information

The Company's Transfer Agent, Computershare Trust Company, N.A. ("Computershare"), is responsible for all shareholder records, including stock transfer and the distribution of dividends, tax documents and annual meeting materials to registered holders. Shareholder requests regarding these and other matters can be addressed by corresponding directly with Computershare at:

Mail: PO Box 43078
Providence, RI 02940-3078

Telephone: 800-736-3001

Web site: www.computershare.com

For information about the Company and your investment, you may also call the Company directly, toll-free, at: 800-999-6501 and ask for the Shareholder Representative; or visit the Investor Relations page at www.unitil.com; or contact us at InvestorRelations@unitil.com.

PROGRAMS and PLANS

Dividend Reinvestment Plan

A Dividend Reinvestment and Stock Purchase Plan is available to registered holders of the Company's Common Stock. This Plan provides shareholders with an economical means to increase their investment in the Company each quarter by reinvesting their dividends without broker fees. For additional information or enrollment, please contact the Company or Computershare.

Dividend Direct Deposit

Dividend Direct Deposit Service is available without charge to shareholders of record of the Company's Common Stock. For further information or enrollment in this service, please contact the Company or Computershare.

Direct Registration

The Company's Common Stock is eligible for Direct Registration or "DRS", which is available without charge to shareholders of record. DRS is a service within the securities industry that allows shares to be held and tracked electronically, without having to retain a physical stock certificate. For additional information, please contact Computershare at:

Mail: PO Box 43084
Providence, RI 02940-3084

Telephone: 800-736-3001

Web site: www.computershare.com

Unitil Corporation • 6 Liberty Lane West • Hampton, NH 03842-1720

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