FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

UNITIL ENERGY SYSTEMS, INC.
For the Period Ended December 31, 2015

UNITIL ENERGY SYSTEMS, INC.

CERTIFICATION TO NOTEHOLDERS

I hereby certify that the accompanying Balance Sheets as of December 31, 2015 and December 31, 2014, Statements of Earnings for the years ended December 31, 2015, 2014 and 2013, Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013, and Statements of Retained Earnings for the years ended December 31, 2015, 2014 and 2013, were, to the best of my knowledge and belief, properly prepared and are correct.

I further certify that I have reviewed the provisions of the Unitil Energy System Inc.'s Bond Purchase Agreements, and to the best of my knowledge and belief the Company was, and remains in compliance with the provisions of these Agreements and no Event of Default exists or occurred during the period of the financial statements ending December 31, 2015 and up to the date of this certification.

Laurence M. Brock
Controller

David Chong
Treasurer

April 1, 2016

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Unitil Energy Systems, Inc.
Hampton, NH

We have audited the accompanying financial statements of Unitil Energy Systems, Inc. (the "Company") (a wholly-owned subsidiary of Unitil Corporation), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of earnings, retained earnings, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Unitil Energy Systems, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The accompanying financial statements have been prepared from the separate records maintained by Unitil Corporation and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company. Portions of certain income and expenses represent allocations made from the Company's parent applicable to the Company's parent as a whole.

Predecessor Auditors' Opinion on 2013 Financial Statements

The financial statements of the Company as of December 31, 2013 and for the year ended December 31, 2013 were audited by other auditors whose report, dated March 28, 2014, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

Boston, MA
April 1, 2016

UNITIL ENERGY SYSTEMS, INC.
STATEMENTS OF EARNINGS
($ in Millions)

	Year Ended December 31,		
	2015	2014	2013
Operating Revenues	**$ 154.7**	$ 151.0	$ 136.5
Operating Expenses:			
Cost of Electric Sales	**97.1**	95.9	82.5
Operation and Maintenance	**21.0**	20.4	20.5
Depreciation and Amortization	**14.1**	13.6	12.8
Taxes Other Than Income Taxes	**5.2**	5.4	4.8
Total Operating Expenses	**137.4**	135.3	120.6
Operating Income	**17.3**	15.7	15.9
Interest Expense	**6.1**	6.2	6.1
Other (Income) Expense, net	**(0.6)**	(0.5)	(0.6)
Income Before Income Taxes	**11.8**	10.0	10.4
Income Taxes	**4.6**	4.0	4.2
Net Income Applicable to Common Stock	**$ 7.2**	$ 6.0	$ 6.2

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

UNITIL ENERGY SYSTEMS, INC.
BALANCE SHEETS
($ in Millions)

	December 31, 2015	2014
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$ 2.3	$ 5.3
Accounts Receivable – Net of Allowance for Doubtful Accounts of $0.5 and $0.9	15.6	16.8
Accrued Revenue	14.2	18.0
Due from Affiliates	1.7	5.0
Deferred Income Taxes	1.1	0.8
Materials and Supplies	0.9	0.9
Prepayments and Other	1.6	1.6
Total Current Assets	37.4	48.4
Utility Plant:		
Electric	272.8	261.9
Construction Work in Progress	17.4	8.4
Utility Plant	290.2	270.3
Less: Accumulated Depreciation	86.7	81.7
Net Utility Plant	203.5	188.6
Other Noncurrent Assets:		
Regulatory Assets	32.8	35.0
Other Assets	2.0	2.2
Total Other Noncurrent Assets	34.8	37.2
TOTAL ASSETS	$ 275.7	$ 274.2

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

UNITIL ENERGY SYSTEMS, INC.
BALANCE SHEETS
($ in Millions, except par value and shares data)

	December 31, 2015	December 31, 2014
LIABILITIES AND CAPITALIZATION:		
Current Liabilities:		
Accounts Payable	$ 11.9	$ 17.8
Short-Term Debt	8.8	10.8
Long-Term Debt, Current Portion	1.5	1.5
Energy Supply Obligations	1.9	5.2
Regulatory Liabilities	4.9	5.4
Taxes Payable	1.1	0.2
Other Current Liabilities	4.6	4.2
Total Current Liabilities	34.7	45.1
Noncurrent Liabilities:		
Energy Supply Obligations	1.6	2.0
Deferred Income Taxes	26.3	24.7
Cost of Removal Obligations	12.3	9.9
Retirement Benefit Obligations	47.2	42.9
Other Noncurrent Liabilities	0.6	0.6
Total Noncurrent Liabilities	88.0	80.1
Capitalization:		
Long-term Debt, Less Current Portion	75.5	78.5
Stockholders' Equity:		
Common Stock, No Par Value		
Authorized - 250,000 shares		
Issued and Outstanding - 131,746 shares	42.4	37.4
Retained Earnings	34.9	32.9
Total Stockholders' Equity	77.3	70.3
Preferred Stock:		
Preferred Stock, Non-Redeemable, Non-Cumulative:		
6.00% Series, $100 Par Value	0.2	0.2
Total Stockholders' Equity	77.5	70.5
Total Capitalization	153.0	149.0
Commitments and Contingencies (Note 6)		
TOTAL LIABILITIES AND CAPITALIZATION	$ 275.7	$ 274.2

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

UNITIL ENERGY SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
($ in Millions)

	Year Ended December 31,		
	2015	2014	2013
Operating Activities:			
Net Income	$ 7.2	$ 6.0	$ 6.2
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:			
Depreciation and Amortization	14.1	13.6	12.8
Deferred Tax Provision	3.6	5.4	4.2
Changes in Working Capital:			
Accounts Receivable	1.2	(4.3)	0.6
Accrued Revenue and Energy Supply Obligations	0.5	2.9	(4.0)
Accounts Payable	(5.9)	3.4	2.7
Due to/from Affiliates	3.3	(1.6)	(2.1)
Regulatory Liabilities	(0.5)	0.8	2.6
Other Changes in Working Capital Items	1.3	---	(0.4)
Deferred Regulatory and Other Charges	3.2	1.6	2.8
Other, net	(2.6)	(4.4)	(2.5)
Cash Provided by Operating Activities	25.4	23.4	22.9
Investing Activities:			
Property, Plant, and Equipment Additions	(23.1)	(18.2)	(16.3)
Cash Used in Investing Activities	(23.1)	(18.2)	(16.3)
Financing Activities:			
(Repayment of) Proceeds from Short-Term Debt, net	(2.0)	0.2	(1.1)
Repayment of Long-Term Debt	(3.0)	---	---
Equity Contribution	5.0	---	---
Dividends Paid	(5.3)	(5.6)	(5.5)
Cash (Used in) Financing Activities	(5.3)	(5.4)	(6.6)
Net (Decrease) Increase in Cash and Cash Equivalents	(3.0)	(0.2)	---
Cash and Cash Equivalents at Beginning of Year	5.3	5.5	5.5
Cash and Cash Equivalents at End of Year	$ 2.3	$ 5.3	$ 5.5
Supplemental Cash Flow Information:			
Interest Paid	$ 5.9	$ 6.0	$ 6.0
Income Taxes Paid	$ 1.0	$ 1.1	$ ---
Non-cash Investing Activity:			
Capital Expenditures Included in Accounts Payable	$ 0.1	$ ---	$ 0.3

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

UNITIL ENERGY SYSTEMS, INC.
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
($ in Millions)

	Common Equity	Retained Earnings	Total
Balance at January 1, 2013	$ 37.4	$ 32.2	$ 69.6
Net Income		6.2	6.2
Dividends Declared		(6.0)	(6.0)
Balance at December 31, 2013	$ 37.4	$ 32.4	$ 69.8
Net Income		6.0	6.0
Dividends Declared		(5.5)	(5.5)
Balance at December 31, 2014	$ 37.4	$ 32.9	$ 70.3
Net Income		7.2	7.2
Dividends Declared		(5.2)	(5.2)
Equity Contribution	5.0		5.0
Balance at December 31, 2015	$ 42.4	$ 34.9	$ 77.3

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

UNITIL ENERGY SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015, 2014 and 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Unitil Energy Systems, Inc. (Unitil Energy or Company), a wholly-owned subsidiary of Unitil Corporation, provides electric service in New Hampshire and is subject to regulation by the New Hampshire Public Utilities Commission (NHPUC). Unitil Energy's accounting policies conform with Generally Accepted Accounting Principles in the United States of America (U.S. GAAP), as applied in the case of regulated public utilities, and are in accordance with the accounting requirements of the NHPUC and the Federal Energy Regulatory Commission (FERC). A description of Unitil Energy's significant accounting policies follows.

Transactions with Affiliates - In addition to its investment in Unitil Energy, Unitil Corporation has interests in two other distribution utility companies, one doing business in New Hampshire and Maine and one doing business in Massachusetts, an interstate natural gas transmission pipeline company, a service company (Unitil Service Corp.), a realty company, a power company, and a non-regulated energy consulting company.

Transactions among Unitil Energy and other affiliated companies include professional and management services rendered by Unitil Service Corp. of approximately $13.5 million, $13.2 million and $13.1 million in 2015, 2014 and 2013, respectively. The Company's transactions with affiliated companies are subject to review by the NHPUC, the Securities and Exchange Commission (SEC) and the FERC.

Prior to May 1, 2003, Unitil Energy purchased all of its power supply from Unitil Power Corp. (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 costs associated with the portfolio sale and its other ongoing power supply-related costs. As of December 31, 2015, the obligations related to these divestitures were $1.9 million and are recorded in Energy Supply Obligations on the Company's Balance Sheets with corresponding regulatory assets recorded in Accrued Revenue (current portion of $0.3 million) and Regulatory Assets (long-term portion of $1.6 million). Recovery of the contract release payments by Unitil Energy from its retail customers has been approved by the NHPUC.

Use of Estimates - The preparation of 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 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.

Fair Value—The Financial Accounting Standards Board (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 Codification 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 in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

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.

There have been no changes in the valuation techniques used during the current period.

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 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.

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 Financial Statements. 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: 2015 – 3.64%, 2014 – 3.64% and 2013 – 3.66%. Depreciation expense for Unitil Energy was $9.6 million, $9.3 million and $8.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Consumption Taxes – The Company bills its customers consumption tax in New Hampshire. These taxes are remitted to the department of revenue and are excluded from revenues on the Company's Statements of Earnings.

Income Taxes – The Company is subject to Federal and State income taxes as well as various other business taxes. 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 Balance Sheets. The Company accounts for income tax assets, liabilities and expenses in accordance with the FASB Codification

UNITIL ENERGY SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015, 2014 and 2013

guidance on Income Taxes. The Company classifies penalty and interest expense related to income tax liabilities as income tax expense and interest expense, respectively, in the Statements of Earnings.

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. The Company accounts for income taxes in accordance with the FASB Codification guidance on Income Taxes which requires an asset and liability approach for the financial accounting and reporting of income taxes. Significant judgments and estimates are required in determining the current and deferred tax assets and liabilities. The Company's current and noncurrent deferred tax assets and liabilities reflect its best assessment of estimated future taxes to be paid. In accordance with the FASB Codification, the Company periodically assesses the realization of its deferred tax assets and liabilities and adjusts the income tax provision, the current tax liability and deferred taxes in the period in which the facts and circumstances which gave rise to the revision become known. Deferred income taxes are reflected as current and noncurrent Deferred Income Taxes on the Company's Balance Sheets based on the nature of the underlying timing item.

Unitil Corporation and its subsidiaries, including Unitil Energy, file consolidated federal income tax returns as well as combined or separate state income tax returns. Federal and state income taxes paid by Unitil Corporation are collected from, or refunded to, Unitil Corporation's subsidiaries based on a tax sharing agreement between Unitil Corporation and each of its affiliated subsidiaries. The tax sharing agreement apportions taxes paid among Unitil Corporation and its subsidiaries as though each affiliate had filed a separate tax return.

Cash and Cash Equivalents – Cash and Cash Equivalents 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. Under the Independent System Operator – New England (ISO-NE) Financial Assurance Policy (Policy), the Company is required to provide assurance of its ability to satisfy its obligations to ISO-NE. Under this Policy, the Company provides cash deposits covering approximately 2-1/2 months of outstanding obligations. On December 31, 2015 and 2014, the Company had deposited $1.9 million and $4.6 million, respectively to satisfy its ISO-NE Policy obligations. These amounts are included in Cash and Cash Equivalents on the Company's Balance Sheets.

Allowance for Uncollectible 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 utility service accounts receivable in prior periods. Account write-offs and 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 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.

Accrued Revenue - Accrued Revenue includes the current portion of Regulatory Assets (see "Regulatory Accounting" below and unbilled revenues (see Utility Revenue Recognition above.) The following table shows the components of Accrued Revenue as of December 31, 2015 and 2014.

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Accrued Revenue ($ millions)	December 31, 2015	December 31, 2014
Regulatory Assets – Current	$ 9.8	$ 14.8
Unbilled Revenues	4.4	3.2
Total Accrued Revenue	$ 14.2	$ 18.0

Materials and Supplies – Materials and Supplies consist of distribution line construction and repair materials. It also consists of distribution substation repair materials. Materials and Supplies are stated at average cost and are issued from stock using the average cost of existing stock. Materials and Supplies are recorded when purchased and subsequently charged to expense or capitalized to property, plant, and equipment when installed. Materials and Supplies were $0.9 million and $0.9 million at December 31, 2015 and 2014, respectively.

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 1.80%, 1.56% and 1.92% in 2015, 2014 and 2013, respectively. The costs of current repairs and minor replacements are charged to 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, cost of removal amounts to provide for future negative salvage value. At December 31, 2015 and 2014, the Company estimates that the cost of removal amounts, which are recorded on the Company's Balance Sheets in Cost of Removal Obligations are $12.3 million and $9.9 million, respectively.

Regulatory Accounting – Unitil Energy's principal business is the distribution of electricity. The Company is subject to regulation by the NHPUC and 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.

Regulatory Assets consist of the following ($ millions)	December 31, 2015	December 31, 2014
Retirement Benefits	$ 24.7	$ 23.5
Energy Supply & Other Regulatory Tracker Mechanisms	8.0	13.3
Deferred Storm Charges	8.8	11.3
Income Taxes	0.8	1.2
Other	0.3	0.5
Total Regulatory Assets	$ 42.6	$ 49.8
Less: Current Portion of Regulatory Assets (1)	9.8	14.8
Regulatory Assets – noncurrent	$ 32.8	$ 35.0

(1) Reflects amounts included in Accrued Revenue on the Company's Balance Sheets.

UNITIL ENERGY SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015, 2014 and 2013

Regulatory Liabilities consist of the following ($ millions)	December 31, 2015	December 31, 2014
Regulatory Tracker Mechanisms	$ 4.9	$ 5.4
Total Regulatory Liabilities	$ 4.9	$ 5.4

Generally, the Company receives a return on investment on its Regulatory 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 Financial Statements. The Company believes it is probable that it will recover its 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.

Derivatives – The Company enters into wholesale electric 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. As of December 31, 2015, the Company determined that none of its wholesale electric energy supply contracts met the criteria for recognition as a derivative instrument as the contracts qualify for the normal purchase and sale scope exemption per the FASB Codification as it applies to derivative instruments.

Energy Supply Obligations – The following discussion and table summarize the nature and amounts of the items recorded as Energy Supply Obligations on the Company's Balance Sheets.

Power Supply Contract Divestitures - As a result of the restructuring of the utility industry in New Hampshire, Unitil Energy's customers have the opportunity to purchase their electric or natural gas supplies from third-party suppliers. In connection with the implementation of retail choice, Unitil Power, which formerly functioned as the wholesale power supply provider for Unitil Energy, divested its long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. Unitil Energy recovers in its rates all the costs associated with the divestiture of its power supply portfolios and has secured regulatory approval from the NHPUC for the recovery of power supply-related stranded costs. As of December 31, 2015, the obligations related to these divestitures were $1.9 million and are recorded in Energy Supply Obligations on the Company's Balance Sheets with corresponding regulatory assets recorded in Accrued Revenue (current portion of $0.3 million) and Regulatory Assets (long-term portion of $1.6 million).

Renewable Energy Portfolio Standards - Renewable Energy Portfolio Standards (RPS) require retail electricity suppliers, including public utilities, to demonstrate that required percentages of their sales are met with power generated from certain types of resources or technologies. Compliance is demonstrated by purchasing and retiring Renewable Energy Certificates (REC) generated by facilities approved by the state as qualifying for REC treatment. Unitil Energy purchases RECs in compliance with RPS legislation in New Hampshire for supply provided to default service customers. RPS compliance costs are a supply cost that is recovered in customer default service rates. Unitil Energy collects RPS compliance costs from customers throughout the year and demonstrates compliance for each calendar year on the following July 1. Due to timing differences between collection of revenue from customers and payment of REC costs to suppliers, Unitil Energy typically maintains accrued revenue for RPS compliance which is recorded in Accrued Revenue with a corresponding liability in Energy Supply Obligations on the Company's Balance Sheets.

	December 31,	
Energy Supply Obligations consist of the following: ($ millions)	**2015**	2014
Current:		
Power Supply Contract Divestitures	$ **0.3**	$ 0.5
Renewable Energy Portfolio Standards	**1.6**	4.7
Total Energy Supply Obligations – Current	$ **1.9**	$ 5.2
Long-Term:		
Power Supply Contract Divestitures	$ **1.6**	$ 2.0
Total Energy Supply Obligations	$ **3.5**	$ 7.2

Retirement Benefit Obligations – The Company co-sponsors the Unitil Corporation Retirement Plan (Pension Plan), which is a defined benefit pension plan. The Pension Plan is closed to new non-union employees. The Pension Plan was closed to union employees covered under the collective bargaining agreement, entered into during 2012 between Unitil Energy and IBEW Local 1837, and hired subsequent to June 1, 2012. The Company also co-sponsors a non-qualified 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 co-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 a liability for the underfunded status of its 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 rates. See Note 8.

Off-Balance Sheet Arrangements – As of December 31, 2015, 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 and other equipment and motor vehicles under operating leases and, in the Company's opinion, the amount of these transactions is not material.

Concentrations of Credit Risk – 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. Accounts receivable may be affected by changes in economic conditions. However, the Company believes that the credit risk associated with accounts receivable is offset by the diversification of the Company's customer base. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents and accounts receivable.

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, 2015, 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 Financial Statements below. See Note 6.

Recently Issued Pronouncements – In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases, which replaces the existing guidance in Accounting Standard Codification 840, Leases. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASU 2016-02 requires a dual approach for lessee accounting under which a lessee would account for leases as finance (also referred to as capital) leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and corresponding lease liability. For finance leases the lessee would recognize interest expense and amortization of the right-of-use asset and for operating leases the lessee would recognize straight-line total lease expense. The Company is evaluating the impact that this new guidance will have on the Company's Financial Statements.

In January 2016, the FASB issued ASU 2016-01 which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. A financial instrument is defined as cash, evidence of ownership interest in a company or other entity, or a contract that both: (i) imposes on one entity a contractual obligation either to deliver cash or another financial instrument to a second entity or to exchange other financial instruments on potentially unfavorable terms with the second entity and (ii) conveys to that second entity a contractual right either to receive cash or another financial instruments from the first entity or to exchange other financial instruments on potentially favorable terms with the first entity. This pronouncement is effective for financial statements issued for annual periods beginning after December 15, 2017 and interim periods within those annual periods with earlier application permitted as of the beginning of the fiscal year of adoption. The Company is evaluating the impact that this new guidance will have on the Company's Financial Statements.

In November 2015, the FASB issued ASU 2015-17 which simplifies the presentation of deferred income taxes in a classified statement of financial position. Current generally accepted accounting principles (GAAP) require an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. ASU 2015-17 amends current GAAP to require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This pronouncement is effective for financial statements issued for annual periods beginning after December 15, 2016 and interim periods within those annual periods with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does not expect this new guidance to have a material impact on the Company's Financial Statements.

In August 2015, the FASB issued ASU 2015-13 which clarifies the Normal Purchases and Normal Sales scope exception to certain electricity contracts. ASU 2015-13 specifies that the use of locational marginal pricing by an independent system operator does not constitute net settlement of a contract. This pronouncement is effective upon its issuance. The Company has adopted this new guidance and it had no impact on the Company's Financial Statements.

In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The effective date of this pronouncement is for fiscal years beginning after December 15, 2017 with early adoption permitted as of the original effective date. The Company is evaluating the impact that this new guidance will have on the Company's Financial Statements.

In July 2015, the FASB issued ASU 2015-11 which provides authoritative guidance requiring inventory to be measured at the lower of cost or net realizable value. The new guidance defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Current guidance requires inventory to be measured at the lower of cost or market where market could be replacement cost, net realizable value or net realizable value less an approximately normal profit margin. This pronouncement is effective for periods beginning after December 15, 2016 with early adoption permitted. The guidance is required to be applied prospectively. The Company does not expect this new guidance to have a material impact on the Company's Financial Statements.

In May 2015, the FASB issued ASU 2015-07 which provides authoritative guidance removing the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Investments measured at net asset value per share using the practical expedient will be presented as a reconciling item between the fair value hierarchy disclosure and the investment line item on the statement of financial position. The guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using the practical expedient. The guidance is effective for fiscal years beginning after December 15, 2015 with early adoption permitted. The guidance is required to be applied retrospectively to all periods presented. The Company does not expect this new guidance to have a material impact on the Company's Financial Statements.

In April 2015, the FASB issued ASU 2015-03 which requires entities to present debt issuance costs related to a debt liability as a direct deduction from the carrying amount of that debt liability on the balance sheet as opposed to being presented as a deferred charge. ASU 2015-03 does not contain guidance for debt issuance costs related to line-of-credit arrangements. Consequently, in August 2015, the FASB issued ASU 2015-15 to add paragraphs indicating that the SEC staff would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The effective date of these pronouncements is for fiscal years beginning after December 15, 2015, with early adoption permitted. The Company does not expect this new guidance to have a material impact on the Company's Financial Statements.

Other than the pronouncements discussed above, there are no recently issued pronouncements that the Company has not already adopted or that have a material impact on the Company.

Subsequent Events – The Company has evaluated all events or transactions through April 1, 2016, the date the Financial Statements were available to be issued. During this period, the Company did not have any material subsequent events that impacted its Financial Statements.

Reclassifications – Certain reclassifications of prior year data were made in the accompanying Financial Statements. These reclassifications were made to conform to the current year presentation.

NOTE 2: DEBT AND FINANCING ARRANGEMENTS

Long-Term Debt and Interest Expense

Substantially all the property of the Company is subject to liens of indenture under which First Mortgage Bonds (FMB) have been issued. Certain of the Company's long-term debt agreements contain provisions, which, among other things, limit the incursion of additional long-term debt. In order to issue new FMB securities, 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 securities, it would constitute a default for all Unitil Energy FMB securities. The Unitil Energy

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default provisions are not triggered by the actions or defaults of other companies owned by Unitil Corporation. The Unitil Energy Indenture Agreement contains covenants restricting the ability of the Company to incur additional liens and to enter into sale and leaseback transactions, and restricting the ability of the Company to consolidate with, to merge with or into or to sell or otherwise dispose of all or substantially all of its assets.

Details of long-term debt at December 31, 2015 and 2014 are shown below:

Long-term Debt ($ millions)	December 31, 2015	December 31, 2014
First Mortgage Bonds:		
5.24% Series, Due March 2, 2020	$ 15.0	$ 15.0
8.49% Series, Due October 14, 2024	12.0	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
Total	$ 77.0	$ 80.0

The aggregate amount of bond repayment requirements is $1.5 million in each of 2016 and 2017; $6.5 million in 2018; $8.5 million in each of 2019 and 2020; and $50.5 million thereafter.

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, 2015 is estimated to be approximately $84.3 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. 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. The fair value of the Company's long-term debt is estimated 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.) 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. Costs, including prepayment costs, associated with the early settlement of long-term debt are not taken into consideration in determining fair value.

Credit Arrangements

Unitil Energy's short-term borrowings are presently provided under a cash pooling and loan agreement between Unitil Corporation and its subsidiaries. Under the existing pooling and loan agreement, Unitil Corporation borrows, as required, from its banks on behalf of its subsidiaries. At December 31, 2015, Unitil Corporation had unsecured committed bank lines of credit for short-term debt aggregating $120 million. The weighted average interest rates on all short-term borrowings were 1.5%, 1.6% and 1.8% during 2015, 2014 and 2013, respectively. Unitil Energy had short-term debt outstanding through bank borrowings of approximately $8.8 million and $10.8 million at December 31, 2015 and December 31, 2014, respectively.

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Leases

The Company leases some of its vehicles, machinery and office equipment under operating lease arrangements. The following is a schedule of future operating lease payment obligations as of December 31, 2015:

Year Ending December 31 ($000's)		
2016	$	361
2017		274
2018		129
2019		88
2020		65
2021 - 2025		54
Total Future Operating Lease Payments	$	971

Total rental expense charged to operations for the years ended December 31, 2015, 2014 and 2013 amounted to $485,000, $376,000 and $324,000, respectively.

NOTE 3: RESTRICTION ON DIVIDENDS

Under the terms of the Indenture of Mortgage and Deed of Trust and the supplemental indentures thereto relating to Unitil Energy's First Mortgage Bonds, $50.8 million was available for dividends and similar distributions at December 31, 2015. Common dividends declared by Unitil Energy are paid exclusively to Unitil Corporation.

NOTE 4: NON-REDEEMABLE, NON-CUMULATIVE PREFERRED STOCK

The 6% Non-Redeemable, Non-Cumulative Preferred Stock ranks senior to Common Stock and the holders thereof are entitled in liquidation to receive $100 per share, plus accrued dividends. At December 31, 2015, the liquidation value of the Company's Preferred Stock was $0.2 million.

NOTE 5: ENERGY SUPPLY

Electric Supply:

The restructuring of the electric utility industry in New Hampshire required the divestiture of the Company's power supply arrangements and the procurement of replacement supplies, which provided the flexibility for migration of customers to and from utility energy service. Unitil Energy, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the Independent System Operator New England, Inc. (ISO-NE) markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve the Company's customers.

As a result of restructuring of the electric utility industry in New Hampshire, Unitil Energy's customers have the opportunity to purchase their electric supply from competitive third-party energy suppliers. As of December 2015, 79% of the Company's largest customers, representing 26% of total electric energy sales are purchasing their electric power supply in the competitive market. The number of residential customers purchasing from a third party supplier has increased more than tenfold in the past three years and stands at 13% of residential customers. Notwithstanding this activity, most residential and small commercial customers continue to purchase their electric supply through the Company under regulated energy rates and tariffs.

Regulated Electric Power Supply

In order to provide regulated electric supply service to their customers, the Company enters into load-following wholesale electric power supply contracts with various wholesale suppliers.

The Company currently has power supply contracts with various wholesale suppliers for the provision of Default Service to its customers. Currently, with approval of the NHPUC, the Company purchases Default Service power supply contracts for small, medium and large customers every six months for 100% of the supply requirements.

The NHPUC regularly reviews alternatives to their procurement policy, which may lead to future changes in this regulated power supply procurement structure.

Regional Electric Transmission and Power Markets

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

In connection with the restructuring of the electric industry in New Hampshire, the Company divested and sold substantially all of its power supply portfolios consisting of long-term power supply contracts. The Company recovers in its rates all the costs associated with this divestiture and sale and has secured regulatory approval from the NHPUC for the recovery of stranded costs, including long term contract buyout agreements, and other restructuring-related regulatory assets. The Company has a continuing obligation to submit regulatory filings that demonstrate its compliance with regulatory mandates and provides for timely recovery of costs in accordance with its approved restructuring plan.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Regulatory Matters - Overview - Unitil Energy delivers electricity to all of its customers in the Company's service territory, at rates established under traditional cost of service regulation. Under this regulatory structure, Unitil Energy recovers the cost of providing distribution service to its customers based on a representative test year, in addition to earning a return on its capital investment in utility assets. As a result of a restructuring of the utility industry in New Hampshire the Company's customers have the opportunity to purchase their electric supplies from third-party suppliers. Most small and medium-sized customers, however, continue to purchase such supplies through Unitil Energy as the provider of default service energy supply. Unitil Energy purchases electricity for default service from unaffiliated wholesale suppliers and recovers 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 divested its long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. Unitil Energy recovers in its rates all the costs associated with the divestiture of Unitil Power's power supply portfolio and has secured regulatory approval from the NHPUC for the recovery of power supply-related stranded costs. As of December 31, 2015, the obligations related to these divestitures were $1.9 million and are recorded in Energy Supply Obligations on the Company's Balance Sheets with corresponding regulatory assets recorded in Accrued Revenue (current portion of $0.3 million) and Regulatory Assets (long-term portion of $1.6 million). The Company has a continuing obligation to submit filings that demonstrate its compliance with regulatory mandates and provide for timely recovery of costs in accordance with its approved restructuring plan. 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.

Unitil Energy provides electric distribution service to its customers pursuant to rates approved by the NHPUC. See "Base Rates" below for a discussion of the Company's current rates. 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, 2015, approximately 52% 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.

Base Rates - On April 26, 2011, the NHPUC approved a rate settlement that extends through May 1, 2016 and provides for a long-term rate plan and earnings sharing mechanism, with a series of step adjustments to increase revenue in future years to support Unitil Energy's continued capital improvements to its distribution system. The third and final step increase of $1.5 million in annual revenue was effective May 1, 2014.

Major Storms

On April 25, 2013, the NHPUC approved the recovery of $2.3 million of costs to repair damage to Unitil Energy's electrical system resulting from Superstorm Sandy over a five-year period, with carrying charges at the Company's long-term cost of debt, net of deferred taxes, or 4.52%, applied to the uncollected balance through the recovery period.

Thanksgiving 2014 Snow Storm - Unitil Energy experienced a significant snow storm that began the afternoon of November 26, 2014 and ended the morning of November 27, 2014, Thanksgiving Day. Unitil Energy spent approximately $2.1 million for the repair and replacement of electric distribution systems damaged during the storm, including $0.4 million related to capital construction and $1.7 million for which the Company will seek recovery of through its approved storm reserve fund, subject to review by the NHPUC in a future regulatory proceeding. 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.

NHPUC Energy Efficiency Resource Standard Proceeding—On May 8, 2015, the NHPUC issued an order of notice commencing a proceeding to establish an Energy Efficiency Resource Standard, an energy

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efficiency policy with specific targets or goals for energy savings that New Hampshire electric and gas utilities must meet. In this proceeding the Commission will define the savings targets and address issues related to public and private funding; program cost recovery; lost-revenue recovery (e.g. decoupling); performance-based incentives and penalties; program administration; and evaluation, measurement, and verification. Initial comments were filed by interested parties on December 9, 2015, and the matter remains pending.

Litigation - 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 its financial position, operating results or cash flows.

Market Risk - Although the Company is subject to commodity price risk as part of its traditional operations, the current regulatory framework within which the Company operates allows for full collection of approved fuel costs in rates. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, as discussed above in Regulatory Matters, the Company has divested its commodity-related contracts and therefore, has further reduced its exposure to commodity risk.

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NOTE 7: INCOME TAXES

Provisions for Federal and State Income Taxes reflected as operating expenses in the accompanying consolidated statements of earnings for the years ended December 31, 2015, 2014 and 2013 are shown in the table below:

	($000's)		
	2015	2014	2013
Current Federal Tax Provision			
Operating Income	$ **3,089**	$ 813	$ ---
Current (Benefit) of Operating Loss Carryforwards	**(3,089)**	(813)	---
Total Current Federal Tax Provision	---	---	---
Deferred Federal Tax Provision			
Utility Plant Differences	**1,382**	4,568	10,183
Net Operating Loss Carryforwards / (Carrybacks)	**3,915**	(886)	(3,978)
Regulatory Assets and Liabilities	**(1,749)**	(508)	(2,848)
Other, net	**26**	(56)	(34)
Total Deferred Federal Tax Provision	**3,574**	3,119	3,323
Total Federal Tax Provision	**3,574**	3,119	3,323
State			
Current	**1,020**	(1,421)	(1)
Deferred	**(15)**	2,276	838
Total State Tax Provision	**1,005**	855	837
Total Provision for Federal and State Income Taxes	$ **4,579**	$ 3,974	$ 4,160

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:

	2015	2014	2013
Statutory Federal Income Tax Rate	**34%**	34%	34%
Income Tax Effects of:			
State Income Taxes, net	6	6	5
Utility Plant Differences	(1)	---	1
Effective Income Tax Rate	39%	40%	40%

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Temporary differences which gave rise to current deferred tax assets and liabilities in 2015 and 2014, are shown below:

Current Deferred Income Taxes (000's)	2015	2014
Accrued Revenue, Current Portion	$ (1,451)	$ (998)
Other, net	318	163
Total Current Deferred Income Tax (Assets) Liabilities	$ (1,133)	$ (835)

Temporary differences which gave rise to noncurrent deferred tax assets and liabilities in 2015 and 2014, are shown below:

Noncurrent Deferred Income Taxes (000's)	2015	2014
Utility Plant Differences	$ 40,914	$ 40,168
Net Operating Loss Carryforwards	(1,303)	(5,194)
Regulatory Assets & Liabilities	3,990	5,242
Retirement Benefit Obligations	(17,426)	(15,873)
Other, net	162	400
Total Noncurrent Deferred Income Tax Liabilities	$ 26,337	$ 24,743

The Company evaluated its tax positions at December 31, 2015 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 accounts for income taxes in accordance with the FASB Codification guidance on Income Taxes which requires an asset and liability approach for the financial accounting and reporting of income taxes. Significant judgments and estimates are required in determining the current and deferred tax assets and liabilities. The Company's deferred tax assets and liabilities reflect its best assessment of estimated future taxes to be paid. Periodically, the Company assesses the realization of its deferred tax assets and liabilities and adjusts the income tax provision, the current tax liability and deferred taxes in the period in which the facts and circumstances which gave rise to the revision become known. The Company recorded no interest on tax items for the years ended December 31, 2015, 2014 and 2013.

In total at December 31, 2015, the Company had recorded federal net operating loss (NOL) carryforward assets of $1.3 million to offset against taxes payable in future periods. If unused, the Company's federal NOL carryforward assets will begin to expire in 2029.

The Company remains subject to examination by New Hampshire tax authorities for the tax periods ended December 31, 2012; December 31, 2013; and December 31, 2014. Income tax filings for the year ended December 31, 2014 have been filed with the New Hampshire Department of Revenue Administration.

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NOTE 8: RETIREMENT BENEFIT OBLIGATIONS

The Company co-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. 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 a non-qualified 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:

Used to Determine Plan costs for years ended December 31:	2015	2014	2013
Discount Rate	4.00%	4.80%	4.00%
Rate of Compensation Increase	3.00%	3.00%	3.00%
Expected Long-term Rate of Return on Plan Assets	8.00%	8.00%	8.50%
Health Care Cost Trend Rate Assumed for Next Year	7.00%	8.00%	8.00%
Ultimate Health Care Cost Trend Rate	4.00%	4.00%	4.00%
Year that Ultimate Health Care Cost Trend Rate is reached	2018	2018	2017
Effect of 1% Increase in Health Care Cost Trend Rate ($000's)	$ 355	$ 249	$ 296
Effect of 1% Decrease in Health Care Cost Trend Rate ($000's)	$ (267)	$ (199)	$ (227)

Used to Determine Benefit Obligations at December 31:	2015	2014	2013
Discount Rate	4.30%	4.00%	4.80%
Rate of Compensation Increase	3.00%	3.00%	3.00%
Health Care Cost Trend Rate Assumed for Next Year	7.00%	7.00%	8.00%
Ultimate Health Care Cost Trend Rate	4.00%	4.00%	4.00%
Year that Ultimate Health care Cost Trend Rate is reached	2022	2018	2018
Effect of 1% Increase in Health Care Cost Trend Rate ($000's)	$ 4,508	$ 3,570	$ 2,457
Effect of 1% Decrease in Health Care Cost Trend Rate ($000's)	$(3,543)	$(2,803)	$(1,992)

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The Discount Rate assumptions used in determining retirement plan costs and retirement plan obligations are based on an assessment of current market conditions using high quality corporate bond interest rate indices and pension yield curves. The Rate of Compensation Increase assumption used in each of 2015, 2014 and 2013 was 3.00%, 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		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Service Cost	**$ 1,068**	$ 881	$ 1,111	**$ 610**	$ 480	$ 621	**$ 37**	$ 18	$ 23
Interest Cost	**2,054**	2,011	1,836	**810**	789	704	**100**	86	77
Expected Return on Plan Assets	**(2,589)**	(2,465)	(2,396)	**(296)**	(290)	(248)	**---**	---	---
Prior Service Cost Amortization	**3**	(3)	(7)	**487**	488	488	**26**	4	4
Actuarial Loss Amortization	**2,017**	1,343	1,912	**243**	6	138	**99**	32	58
Sub-total	**2,553**	1,767	2,456	**1,854**	1,473	1,703	**262**	140	162
Amounts Capitalized and Deferred	**(1,285)**	(895)	(1,226)	**(930)**	(760)	(829)	**---**	---	---
NPBC Recognized	**$ 1,268**	$ 872	$ 1,230	**$ 924**	$ 713	$ 874	**$ 262**	$ 140	$ 162

The estimated amortization related to Actuarial Loss and Prior Service Cost included in the Company's retirement plan costs or as a reduction of regulatory assets over the next fiscal year are $1.8 million, $0.9 million and $0.2 million for the Pension, PBOP and SERP plans, respectively.

The following table represents information on the plans' assets, projected benefit obligations (PBO), and funded status ($000's):

	Pension Plan		PBOP Plan		SERP	
	2015	2014	**2015**	2014	**2015**	2014
Change in Plan Assets:						
Plan Assets at Beginning of Year	**$ 35,551**	$ 34,851	**$ 4,083**	$ 3,944	**$ ---**	$ ---
Actual Return on Plan Assets	**(917)**	1,141	**(220)**	143	**---**	---
Employer Contributions	**1,330**	1,135	**926**	769	**12**	14
Participant Contributions	**---**	---	**12**	8	**---**	---
Benefits Paid	**(1,769)**	(1,576)	**(979)**	(781)	**(12)**	(14)
Plan Assets at End of Year	**$ 34,195**	$ 35,551	**$ 3,822**	$ 4,083	**$ ---**	$ ---

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Change in PBO:						
PBO at Beginning of Year	$ 56,782	$ 47,333	$ 23,069	$ 19,203	$ 2,854	$ 2,314
Service Cost	1,068	881	610	480	37	18
Interest Cost	2,054	2,011	810	789	100	86
Participant Contributions	---	---	12	8	---	---
Plan Amendments	---	---	---	---	185	---
Benefits Paid	(1,769)	(1,576)	(979)	(781)	(12)	(14)
Actuarial (Gain) or Loss	(2,222)	8,133	2,826	3,370	(108)	450
PBO at End of Year	$ 55,913	$ 56,782	$ 26,348	$ 23,069	$ 3,056	$ 2,854
Funded Status: Assets vs PBO	$ (21,718)	$ (21,231)	$ (22,526)	$ (18,986)	$ (3,056)	$ (2,854)

The funded status of the Pension, PBOP and SERP Plans is calculated based on the difference between the benefit obligation and the fair value of plan assets and is recorded on the balance sheets as an asset or a liability. Because the Company recovers the retiree benefit costs from customers through rates, regulatory assets are recorded in lieu of an adjustment to Accumulated Other Comprehensive Income/(Loss).

The Company has recorded on its Balance Sheets a liability for the underfunded status of its retirement benefit obligations based on the projected benefit obligation. The Company has recognized Regulatory Assets, net of tax, of $24.7 million and $23.5 million at December 31, 2015 and 2014, respectively, to recognize the future collection of these plan obligations in electric 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 $50.5 million and $50.9 million as of December 31, 2015 and 2014, respectively. The ABO for the SERP was $2.3 million and $2.2 million as of December 31, 2015 and 2014, respectively. For the PBOP Plan, the ABO and PBO are the same..

The Company expects to continue to make contributions to its Pension Plan in 2016 and future years at minimum required and discretionary funding levels consistent with the amounts recovered in rates for these Pension Plan costs.

The following table represents employer contributions, participant contributions and benefit payments ($000's).

	Pension Plan			PBOP Plan			SERP		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Employer Contributions	$ 1,330	$ 1,135	$ 1,138	$ 926	$ 769	$ 893	$ 12	$ 14	$ 15
Participant Contributions	$ ---	$ ---	$ ---	$ 12	$ 8	$ 7	$ ---	$ --	$ ---
Benefit Payments	$ 1,769	$ 1,576	$ 1,566	$ 979	$ 781	$ 784	$ 12	$ 14	$ 15

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The following table represents estimated future benefit payments ($000's).

Estimated Future Benefit Payments

	Pension	PBOP	SERP
2016	$ 2,014	$ 831	$ 130
2017	2,091	860	128
2018	2,180	917	127
2019	2,302	961	145
2020	2,362	1,001	143
2021 - 2025	$ 13,772	$ 5,915	$ 922

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 47% in common stock equities, 37% in fixed income securities, 10% in real estate securities and 6% in a combined equity and debt fund. 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	Actual Allocation at December 31,		
	2016	2015	2014	2013
Equity Funds	47%	**46%**	49%	54%
Debt Funds	37%	**37%**	36%	32%
Real Estate Fund	10%	**11%**	10%	1%
Asset Allocation Fund(1)	6%	**6%**	5%	5%
Other(2)	0%	**0%**	0%	8%
Total		**100%**	100%	100%

(1) Represents investments in an asset allocation fund. This fund invests in both equity and debt securities.
(2) Represents investments being held in cash equivalents as of December 31, 2013 pending transfer into a Real Estate Fund.

PBOP Plan	Target Allocation	Actual Allocation at December 31,		
	2016	2015	2014	2013
Equity Funds	55%	**53%**	56%	57%
Debt Funds	45%	**47%**	44%	43%
Total		**100%**	100%	100%

The combination of these target allocations and expected returns resulted in the overall assumed long-term rate of return of 8.00% for 2015. The assumed long-term rate of return for 2016 is 8.00%. 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.

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Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014. Please also see Note 1 for a discussion of the Company's fair value accounting policy.

Equity, Fixed Income, Index and Asset Allocation Funds
These investments are valued based on quoted prices from active markets. These securities are categorized in Level 1 as they are actively traded and no valuation adjustments have been applied.

Cash Equivalents
These investments are valued at cost, which approximates fair value, and are categorized in Level 1.

Real Estate Fund
These investments are valued at net asset value (NAV) per unit based on a combination of market- and income-based models utilizing market discount rates, projected cash flows and the estimated value into perpetuity and are categorized in Level 3.

Assets measured at fair value on a recurring basis for the Pension Plan as of December 31, 2015 and 2014 are as follows ($000's):

Description	Balance as of December 31,	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2015				
Pension Plan Assets:				
Equity Funds	$ 15,735	$ 15,735	$ ---	$ ---
Fixed Income Funds	12,625	12,625	---	---
Asset Allocation Fund	2,168	2,168	---	---
Real Estate Fund	3,667	---	---	3,667
Total Assets	$ 34,195	$ 30,528	$ ---	$ 3,667
2014				
Pension Plan Assets:				
Equity Funds	$ 17,524	$ 17,524	$ ---	$ ---
Fixed Income Funds	12,761	12,761	---	---
Asset Allocation Fund	1,917	1,917	---	---
Real Estate Fund	3,349	---	---	3,349
Total Assets	$ 35,551	$ 32,202	$ ---	$ 3,349

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The following tables set forth additional disclosures of Pension Plan investments whose fair value is estimated using net asset value per share as of December 31, 2015 and 2014 ($000's):

Description	Fair Value Estimated Using NAV Per Share: Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
	December 31, 2015			
SEI Core Property Collective Investment Trust Fund (1)	$ 3,667	$ —	Quarterly	65 days
	December 31, 2014			
SEI Core Property Collective Investment Trust Fund (1)	$ 3,349	$ —	Quarterly	65 days

(1) The SEI Core Property Collective Investment Trust Fund, through the SEI Core Property Fund, seeks both current income and long-term capital appreciation through investing in underlying funds that acquire, manage, and dispose of commercial real estate properties.

The table below sets forth a summary of changes in the fair value of the Pension Plan's Level 3 assets for the years ended December 31, 2015 and 2014 ($000's):

Level 3 Assets – SEI Core Property Collective Investment Trust Fund

	December 31, 2015	December 31, 2014
Beginning Balance	$ 3,349	$ 475
Actual Return on Investments:		
Related to Investments Held at Year-End	318	183
Related to Investments Sold During the Year	---	—
Total Return on Investments	318	183
Purchases, Sales and Settlements	---	2,691
Ending Balance	$ 3,667	$ 3,349

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Assets measured at fair value on a recurring basis for the PBOP Plan as of December 31, 2015 and 2014 are as follows ($000's):

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of December 31,**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
2015				
PBOP Plan Assets:				
Mutual Funds:				
Fixed Income Funds	$ 1,785	$ 1,785	$ —	$ —
Equity Funds	2,037	2,037	—	—
Total Assets	$ 3,822	$ 3,822	$ —	$ —
2014				
PBOP Plan Assets:				
Mutual Funds:				
Fixed Income Funds	$ 1,800	$ 1,800	$ —	$ —
Index Funds	1,690	1,690	—	—
Equity Funds	593	593	—	—
Total Assets	$ 4,083	$ 4,083	$ —	$ —

Employee 401(k) Tax Deferred Savings Plan — The Company co-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.

The Company's share of contributions to the 401(k) Plan was $575,000, $538,000 and $496,000 for the years ended December 31, 2015, 2014, and 2013, respectively.

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NOTE 9: OPERATING REVENUES AND SALES MARGIN (unaudited)

Operating Revenues and Sales Margin – The following table details Operating Revenue and Sales Margin for the last three years:

Operating Revenues ($ millions)

				Change			
				2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$	%	$	%
Operating Revenue	$ **154.7**	$ 151.0	$ 136.5	$ 3.7	2.5%	$ 14.5	10.6%
Cost of Electric Sales	$ **97.1**	$ 95.9	$ 82.5	$ 1.2	1.3%	$ 13.4	16.2%
Sales Margin	$ **57.6**	$ 55.1	$ 54.0	$ 2.5	4.5%	$ 1.1	2.0%

The Company analyzes operating results using Sales Margin, a non-GAAP measure. Sales Margin is calculated as Operating Revenues less Cost of Electric Sales. The Company believes Sales Margin is a better measure to analyze profitability than Operating Revenues because the approved cost of sales are tracked costs that are passed through directly to the customer resulting in an equal and offsetting amount reflected in Operating Revenues. Sales Margin can be reconciled to Operating Income, a GAAP measure, by including Operation and Maintenance, Depreciation and Amortization and Taxes Other Than Income Taxes.