

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
**FORM 10-Q**

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
**For Quarter Ended September 30, 2003**

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 office)*

**03842-1720**

*(Zip Code)*

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

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No \_\_\_

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 30, 2003
Common Stock, No par value	5,492,190 Shares

**UNITIL CORPORATION AND SUBSIDIARY COMPANIES**  
**FORM 10-Q**  
**For the Quarter Ended September 30, 2003**

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## PART I. FINANCIAL INFORMATION

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### SAFE HARBOR CAUTIONARY STATEMENT

This 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.

#### RESULTS OF OPERATIONS

Net Income for the third quarter of 2003 was \$1.4 million, or \$0.30 per share, up \$0.01 per share compared to the \$0.29 per share earned in the same three-month period in 2002. Through the first nine months of 2003, Net Income was \$5.3 million, or \$1.12 per share, up \$0.20 per share compared to the \$0.92 per share earned in the same nine month period in 2002. This improvement in earnings for the three- and nine-month periods reflects higher electric and gas sales margins offset by increases in utility operating expenses.

#### Operating Revenues (000's)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2003	2002	Change	2003	2002	Change
<b>Electric:</b>						
Residential	\$ 22,146	\$ 17,029	30%	\$ 60,499	\$ 49,122	23%
Commercial/Industrial	27,216	28,128	(3%)	84,949	74,692	14%
<b>Total Electric</b>	<b>\$ 49,362</b>	<b>\$ 45,157</b>	<b>9%</b>	<b>\$ 145,448</b>	<b>\$ 123,814</b>	<b>17%</b>
<b>Gas:</b>						
Residential	\$ 1,674	\$ 1,090	54%	\$ 11,777	\$ 7,097	66%
Commercial/Industrial	1,595	1,606	(1%)	9,252	6,355	46%
<b>Total Gas</b>	<b>\$ 3,269</b>	<b>\$ 2,696</b>	<b>21%</b>	<b>\$ 21,029</b>	<b>\$ 13,452</b>	<b>56%</b>
<b>Other</b>	<b>\$ 261</b>	<b>\$ 154</b>	<b>69%</b>	<b>\$ 846</b>	<b>\$ 547</b>	<b>55%</b>
<b>Total Operating Revenues</b>	<b>\$ 52,892</b>	<b>\$ 48,007</b>	<b>10%</b>	<b>\$ 167,323</b>	<b>\$ 137,813</b>	<b>21%</b>

Total revenues were \$52.9 million for the third quarter of 2003 compared to \$48.0 million for the same period last year, an increase of \$4.9 million. For the nine months ended September 30, 2003, total revenues were \$167.3 million compared to \$137.8 million through the first three quarters last year, an increase of \$29.5 million. Total revenues include the recovery of cost of sales, which are recorded as Purchased Power and Gas in Operating Expenses. The cost of sales component of revenues increased \$2.0 million and \$20.8 million in the three- and nine-month periods ended September 30, 2003, respectively, compared to the same periods last year reflecting higher electricity and gas commodity prices and an increase of approximately 5% in electric sales and 18% in gas sales, on a year-to-date basis. The Company recovers the costs of Purchased Power and Gas in its rates as a pass through to customers at cost and therefore changes in these revenues do not impact net income.

Total sales margin (Revenues less Purchased Power and Gas) was \$17.8 million and \$53.8 million in the three- and nine-month periods ended September 30, 2003, respectively, reflecting an increase of \$2.9 million and \$8.7 million compared to the same three- and nine-month periods in 2002. This improvement in total sales margin reflects the impact of 2002 base rate cases, which resulted in higher base distribution rates for the Company's electric and gas utility operations as of December 2002, and higher electric and gas unit sales in the current periods compared to the prior periods.

Electric margin increased \$2.4 million for the three-month period and \$5.5 million for the nine-month period. The electric margin increase in the three-month period primarily reflects the higher retail base rates. For the nine-month period, approximately two-thirds of the electric margin increase is due to the higher retail base rates with the remaining third resulting from increased unit sales.

Gas margin increased approximately \$0.4 million for the three-month period and \$2.9 million for the nine-month period. The gas margin increase in the three-month period reflects the higher retail rates. For the nine-month period, approximately 60% of the gas margin increase is due to the higher retail base rates with the remaining 40% resulting from increased unit sales.

Usource revenues increased \$0.1 million and \$0.3 million for the three- and nine-month periods ended September 30, 2003, respectively, compared to the same periods in 2002.

The revenues and margins discussed above reflect the Company's recovery of its costs of service which include its operating costs, depreciation and amortization expense, taxes and a return on the Company's utility investments.

#### Sales (000's)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2003	2002	Change	2003	2002	Change
<b>Electric (kWh) Sales:</b>						
Residential	174,657	170,504	2%	497,164	467,541	6%
Commercial/Industrial	289,492	291,798	(1%)	811,990	785,646	3%
<b>Total Electric Sales</b>	<b>464,149</b>	<b>462,302</b>	-	<b>1,309,154</b>	<b>1,253,187</b>	<b>5%</b>
<b>Gas (firm therm) Sales:</b>						
Residential	784	818	(4%)	9,454	8,037	18%
Commercial/Industrial	1,032	1,068	(3%)	9,448	7,976	19%
<b>Total Gas Sales</b>	<b>1,816</b>	<b>1,886</b>	<b>(4%)</b>	<b>18,902</b>	<b>16,013</b>	<b>18%</b>

For the three months ended September 30, 2003, gas unit sales were slightly below the third quarter of last year, reflecting relatively low usage of natural gas during the summer months. Gas sales were 18% higher than last year through the first nine months of 2003, due to a colder winter heating season.

Total electric kilowatt-hour (kWh) sales volume for the third quarter of 2003 was even with the prior year's third quarter and is 5% ahead of last year through September. Residential kWh sales increased 2% and sales to Commercial/Industrial customers decreased 1% over the third quarter last year.

Operation and Maintenance expenses increased \$1.9 million and \$4.0 million, respectively, for the three- and nine-month periods ended September 30, 2003, compared to the same periods in 2002. Approximately half of the increase, \$1.0 million and \$1.9 million for the three- and nine-month periods, respectively, are related to expenses collected in revenues from cost reconciling rate mechanisms. These costs include amounts expended

to implement electric utility industry restructuring and higher spending over prior year for energy efficiency and conservation programs. Due to the reconciling nature of these costs, they do not have an impact on net income. The remaining portion of higher operating expenses compared to last year primarily reflects higher operating expenses of \$0.9 million and \$2.1 million, respectively for the three- and nine-month periods.

The \$2.6 million increase in Depreciation and Amortization expenses during the nine-month period was due to new utility asset depreciation rates put into place as a result of depreciation studies conducted as part of the 2002 base rate cases, together with the increase in utility plant capital additions placed in service during the past year. Local Property and Other taxes reflect these higher plant additions as well.

Interest Expense, net includes interest paid on short- and long-term borrowings (\$6.9 million for the first nine months of 2003) as well as interest earned on deferred regulatory asset balances (\$1.0 million for the first nine months of 2003). The increase of \$0.3 million in the first nine months of 2003 over the same period last year primarily reflects a decrease of \$250,000 in interest earned on deferred regulatory asset balances.

Federal and State income tax expense is higher in 2003 reflecting higher pre-tax earnings and a net increase in state tax rates.

## **SUBSEQUENT EVENTS**

**Unitil Corporation Common Stock Offering** – On October 29, 2003, the Company raised approximately \$17.1 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 an initial equity infusion of \$12 million into its two principal utility operating subsidiaries, Unitil Energy Systems, Inc. (UES) and Fitchburg Gas and Electric Light Company (FG&E) to replace short-term indebtedness incurred to support ongoing investment in utility distribution facilities, and for other general corporate purposes. The amount of the offering is reflected in the Company's pro-forma capitalization and short-term debt as of September 30, 2003 - see Note 8 to the Consolidated Financial Statements.

**Fitchburg Gas and Electric Light Company Long-Term Notes Issuance** - On October 28, 2003, Unitil's Massachusetts utility subsidiary, 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 and are included in the Company's pro-forma capitalization and short-term debt as of September 30, 2003 – see Note 8 to the Consolidated Financial Statements.

## **CAPITAL REQUIREMENTS**

Cash flow from operating activities was \$13.7 million for the nine months ended September 30, 2003 compared to \$7.7 million for the same period last year. The Company's 2003 results include increases in accrued revenues and decreases in insurance settlement reserves recorded in Other Current Liabilities. The increase in accrued revenues results from the high energy costs experienced during last winter and the related amounts due from customers in accrued revenues as of September 30, 2003. The Company will recover these amounts from customers, with interest, over the next year. The decrease in Other Current Liabilities reflects a reduction in insurance settlement reserves for the funding of approximately \$3.5 million during the nine months ended September 30, 2003 of a major environmental project (See Note 7).

Cash flows from investing activities include capital expenditures for the nine months ended September 30, 2003 which were approximately \$16.7 million as compared to \$14.4 million during the same period last year, an increase of \$2.3 million. This increase is primarily the result of planned expenditures on new electric system supply lines that added needed capacity to the seacoast region of Unitil's utility service territories and other capital expenditures throughout Unitil's utility service territories related to customer growth. Capital expenditures for the

year 2003 are estimated to be approximately \$21.8 million as compared to \$20.8 million for 2002. This projection reflects required capital expenditures for utility system expansions, replacements and other improvements.

Cash flows from financing activities include an increase in short-term borrowings of \$6.3 million. These proceeds were principally used to repay long-term debt of \$3.2 million and to fund the difference between the amounts expended for investing activities and the amounts achieved in cash flow from operations.

## **CRITICAL ACCOUNTING POLICIES**

The preparation of the Company's financial statements, in conformity with accounting principles generally accepted 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. Actual results could differ from those estimates. The following is a summary of the Company's most critical accounting policies, which are defined as those policies in which judgments or uncertainties could materially affect the application of those policies. For a complete discussion of the Company's significant policies, refer to the attached financial statements and Note 1: Summary of Significant Accounting Policies.

**Regulatory Accounting** – The Company is a regulated utility and its principal business is the distribution of electricity and natural gas. Accordingly, the Company uses the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." 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. As a regulated utility, the company's utility investments and operating costs are subject to periodic review by State and Federal regulatory authorities and may be subject to disallowance or adjustment for recovery from ratepayers. The Company also has commitments under long-term contracts for the purchase of electricity from various suppliers. The annual costs under these contracts are included in Fuel and Purchased Power and Gas Purchased for Resale in the Consolidated Statements of Earnings and these costs are recoverable in current and future rates under various orders issued by state and federal regulators.

**Commitments and Contingencies** – The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with SFAS No. 5, "Accounting for Contingencies." For example, in 2002 the Company resolved a long standing contingency related to an environmental matter by entering into a fixed price contract to remediate the site while also settling on the funding of the project to be provided by the Company's insurance carrier. As a result, management estimates that this matter will not have a material adverse effect on the Company's financial position.

**Newly Issued Pronouncements** – Please refer to Note 1 to the Consolidated Financial Statements. "Summary of Significant Accounting Policies" discussed below on page 15.

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and replaces the current accounting guidance relating to the consolidation of certain special purpose entities (SPE's). FIN 46 requires identification of the Company's participation in variable interest entities (VIE's) established on the basis of contractual, ownership or other monetary interests. A VIE is defined as an entity in which the equity investors do not have a controlling interest and the equity investment at risk is insufficient to fund future activities to permit the VIE to operate on a stand alone basis without receiving additional financial support.

For entities identified as VIE's, FIN 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE bears a majority of the risk to the VIE's expected losses, or stands to gain from a majority of the expected returns of the VIE. The party with the majority variable interest is considered to be the primary beneficiary (Primary Beneficiary) of the VIE. As a result, entities that are deemed to be VIE's in which the Company is identified as the Primary Beneficiary were required to be consolidated beginning in July, 2003. At its Board meeting on October 8, 2003, the FASB decided to defer implementation of this requirement until the

fourth quarter of 2003. The Company intends to implement FIN 46 for financial reporting purposes in the fourth quarter of 2003.

The Company has reviewed its investments and affiliations and determined that it has a variable interest in the Unitil Retiree Trust (URT), a special purpose entity established January, 1993. The URT was established to promote and maintain a variety of recreational, cultural, social and welfare (including medical insurance, counseling and health) programs for its members. All retirees of the Company are eligible for membership in the URT. The URT earns fees, used to fund its activities, from the Company and without those fees it is uncertain whether the URT would be able to meet its future obligations to the Company's retirees and continue to operate on a stand alone basis. The Company has determined that it is the Primary Beneficiary of the URT's services. The Company anticipates that it will assume the obligations of the URT on a going forward basis and is exploring its options to formalize a new structure in which the funding of these obligations is provided directly by the Company. There are no other entities identified by the Company that qualify as VIE's under FIN 46.

The URT is an organization of retirees that became effective in 1993, and operates under the direction of an independent Board of Trustees whose voting members are comprised of former employees of the Company. FIN 46 requires that the assets and liabilities of the VIE be measured at fair value and recorded by the Primary Beneficiary. The Company is a regulated enterprise and its financial statements are reported on the accrual basis and in conformity with Generally Accepted Accounting Principles (GAAP) and SFAS 71. As a result of the assumption of the obligations of the URT, the Company is expected to recognize a liability, over 20 years, for the retiree health and welfare benefits previously provided by the URT on the accrual basis in conformity with SFAS No. 106, "Accounting for Postretirement Benefits Other than Pensions," (PBOP). At June 30, 2003, the Company's maximum exposure to loss as a result of its relationship with the URT, in the event that the URT could no longer fund its retiree programs, would be limited to the amount of the current and future PBOP liability that may not be recovered in retail rates. However, based on regulatory precedent, the Company believes all of these costs are recoverable as normal utility operating expenses.

The actuarially determined liability for PBOP retiree benefits earned before January 1, 2003, is approximately \$28.5 million. This amount is the Company's transition obligation (Transition Obligation) and the Company has elected, under SFAS 106, to amortize this liability over 20 years. The Company expects to recover the Transition Obligation and the annual PBOP expense recorded by its regulated subsidiaries in retail rates to be established in future rate proceedings in the regulatory jurisdictions where the Company operates. Accordingly, the Company will defer the difference between the recording of PBOP expenses on the accrual basis and the amount of PBOP expenses on the "pay as you go" basis, which the Company currently collects in rates. These deferrals will create Regulatory Assets under SFAS 71 of approximately \$2 million annually until the Company completes the regulatory proceedings to establish new retail rates.

During fiscal 2003, the Company adopted Statement No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." The adoption of this statement did not have a material impact on the Company's financial position or results of operations.

In April 2003, the FASB issued Statement No. 149 (SFAS 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies financial accounting and reporting requirements for derivative instruments, including derivative instruments embedded in other contracts, and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." In general, SFAS 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company has determined that adoption of this statement will not have a material impact on the Company's financial position or results of operations.

In May 2003, the FASB issued Statement No. 150 (SFAS 150), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability, or in certain instances, as an asset. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, otherwise SFAS 150 is generally effective with interim periods beginning after June 15, 2003. The Company has determined that adoption of this statement will not have a material impact on the Company's financial position or results of operations.

## INTEREST RATE RISK

The Company meets its external financing needs by issuing short-term debt. The majority of the Company's 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 long-term debt securities issued by the Company. In addition, the Company's short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease the Company's interest expense in future periods. For example, if the Company had an 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 (pre-tax). The average interest rates on the Company's short-term borrowings for the three months ended September 30, 2003 and September 30, 2002 were 1.74% and 2.28%, respectively. The average interest rates on the Company's short-term borrowings for the nine months ended September 30, 2003 and September 30, 2002 were 1.82% and 2.25%, respectively.

## MARKET RISK

Please refer to Item 3. "Quantitative and Qualitative Disclosures About Market Risk" discussed below on page 25.

## REGULATORY MATTERS

**Massachusetts Electric Operations Restructuring** – Beginning March 1, 1998, FG&E implemented its Restructuring Plan under the Massachusetts Electric Utility Restructuring Act of 1997 (Restructuring Act). As discussed in Note 6 to these Financial Statements, FG&E completed the divestiture of its entire regulated power supply business in 2000 in accordance with its Restructuring Plan. As of September 30, 2003, competitive suppliers were serving approximately 29% of FG&E's load, mainly for large industrial customers.

The MDTE approved the rate adjustments pursuant to FG&E's 2002 Reconciliation Filing for effect on January 1, 2003, subject to investigation. This adjustment resulted in a rate reduction of approximately 4.4% for residential Standard Offer Service (SOS) customers. The reduction is due to a decrease in the SOS fuel adjustment, which does not affect net income. A final MDTE order is pending.

The MDTE approved an increase to FG&E's SOS fuel adjustment, effective May 1, 2003, to reflect a rise in prices for fuel oil and natural gas. The bill increase to residential SOS customers was approximately 1.9%, and did not affect net income. A subsequent additional increase to FG&E's SOS fuel adjustment was approved by the MDTE effective September 1, 2003. The bill increase to residential SOS customers was approximately 3.9%.

In April 2003, the MDTE issued an order addressing costs to be included in default service prices, providers of default service, and procurement and pricing of default service. The MDTE determined that procurement related wholesale costs and direct retail costs (such as bad debts), should be included in the price. Distribution companies will continue to function as default service providers for their customers. In September 2003, the MDTE directed distribution companies to implement quarterly procurement of default service for their medium and large C&I customers. The six-month procurement term for small customers will be replaced with a process in which 50% of supply will be procured semi-annually for twelve month terms. Separate proceedings will be opened for each distribution company to determine the amount of costs to be transferred from base rates to default service rates and the appropriate adjustment to be applied to each rate class' base rates.

**New Hampshire Restructuring** – In 2002, the Company's New Hampshire electric utility subsidiaries, Concord Electric Company (CECo), Exeter & Hampton Electric Company (E&H) and Unitil Power Corp. (Unitil Power), received approval for a comprehensive restructuring proposal from the NHPUC. This approved proposal included



the merger of E&H with and into CECO. CECO changed its name to Unitil Energy Systems, Inc. (UES) immediately following the merger. Under Unitil's restructuring plan, Unitil agreed to divest its existing power supply portfolio and conduct a solicitation for new power supplies from which to meet UES' ongoing Transition and Default Service obligations in order to implement customer choice for UES' customers May 1, 2003. In March 2003, the NHPUC approved the contract among Unitil Power, UES and Mirant Americas Energy Marketing, LP (MAEM), under which MAEM will purchase the entitlements to Unitil Power's Supply portfolio and provide Transition and Default Service to the customers of UES. The NHPUC also approved final tariffs for UES for stranded cost recovery and Transition and Default Service. The final amount of Unitil Power's recoverable stranded costs, calculated on the basis of the amounts agreed to be paid by the parties under such contract for the Unitil Power power supply portfolio, was determined to be \$108.7 million, with a recovery period of eight years. The costs of Transition and Default electric supply service and the costs associated with the sale and divestiture of the Unitil Power power supply portfolio are recovered "at cost" from Unitil's New Hampshire electric customers through pass through energy supply-related rate reconciliation mechanisms.

In July, 2003, MAEM and its parent, Mirant Corporation, filed for reorganization under Chapter 11 of the bankruptcy code. Under the contract with UES and Unitil Power discussed above, Mirant guarantees the performance by MAEM. Mirant has continued to honor its obligations under its contract with UES and Unitil Power post-petition and has indicated its intent to perform pending a decision to assume or reject the contract under the bankruptcy procedures. UES and Unitil Power have elected to hold back pre-petition amounts due to MAEM of approximately \$5.3 million as an offset against an equivalent pre-petition amount due from MAEM to UES and UPC. Mirant has disputed the right of Unitil Power and UES to holdback these amounts but has not sought any relief in the bankruptcy court in this regard. Unitil Power and UES filed a motion with the Bankruptcy Court in September, 2003, requesting that MAEM be required to make a decision to assume or reject the contract by December 1, 2003. The New Hampshire Office of the Consumer Advocate filed in support of the motion of UES and Unitil Power on behalf of our New Hampshire residential ratepayers. MAEM has not yet filed a response to the motion to compel it to assume or reject the agreement. UES and UPC are currently in discussions with MAEM regarding its assumptions of the agreement and the cure of its defaults under the agreement. There can be no assurance that such discussions will lead to MAEM's assumption of the agreement and cure of such defaults. Should MAEM not assume the agreement, UPC would sell the electricity under those power supply agreements into the New England power market on a short-term basis and would seek to resell the entire portfolio on a long-term basis. The actual stranded costs UES would incur should MAEM not perform under the agreement would likely be different than the \$57.6 million which has been approved for recovery by the NHPUC. Should the actual stranded costs exceed \$57.6 million, recovery of the excess would be subject to the approval of the NHPUC. Should the NHPUC disallow recovery of some or all of any increased stranded costs, it would adversely affect our financial condition and earnings.

**Wholesale Power Market Restructuring – Standard Market Design (SMD):** New wholesale markets structured pursuant to the Federal Energy Regulatory Commission's (FERC) SMD were implemented in the New England Power Pool (NEPOOL) on March 1, 2003 under the general supervision of an Independent System Operator (ISO) and the regulatory oversight of FERC. The impact of SMD on wholesale prices is not fully known at this time. Any changes in the wholesale markets as a result of SMD will be reflected in the responses of wholesale marketers to future requests for proposals to be issued by UES and FG&E to provide transition and default service to our customers.

**Regional Transmission Organization (RTO):** In January 2003, the ISO New England, Inc. announced that it intended to move forward with a New England only RTO. Implementation of an RTO would change current governance of the wholesale power markets in New England since the NEPOOL participants would not have direct input into wholesale power market rules. However, since a proposal has not yet been filed with FERC, the impact of an RTO implementation is not fully known at this time.

**Other Regulatory Proceedings –** Between December 2002 and January 2003, FG&E and UES received approval from their respective state regulatory commissions of accounting orders to mitigate certain accounting requirements related to pension plan assets, which have been triggered by the substantial decline in the capital markets. These approvals allow FG&E and UES to treat the additional minimum pension liability and prepaid pension costs as Regulatory Assets and avoid the reduction in equity that would otherwise be required. These

regulatory orders do not pre-approve the amount of pension expense to be recovered in future rates, which recovery will be determined in future rate proceedings. Based on these approvals, Unitil has included the amount of the additional minimum pension liabilities and Prepaid Pension Costs of \$12.0 million in Regulatory Assets on its balance sheet.

As to its gas operations, FG&E continues to provide a multi-year refund through its Cost of Gas Adjustment Clause in compliance with the MDTE's May 2001 Order finding that FG&E had over-collected fuel inventory finance charges. At September 30, 2003, the unamortized balance of this refund was \$1.2 million. FG&E believes a refund is not justified or warranted and has appealed the MDTE's ruling to the Massachusetts Supreme Judicial Court (SJC). A decision is expected sometime later this year or early in 2004.

In September, 2003, FG&E filed its annual cost reconciliation and revised Cost of Gas Adjustment Clause (CGAC) and Local Distribution Adjustment Clause (LDAC) with the MDTE for rates effective November 1, 2003. If approved, the winter bill to a typical residential heating customer will decrease by approximately 3.3% from current summer rates. These decreases are due to lower projected gas commodity costs and do not impact earnings.

In March 2003, the MDTE opened an investigation into FG&E's dealings with Enermetrix, Inc. (Enermetrix). Enermetrix provides an internet-based energy auction service that is used by utilities to post their natural gas and electric power needs for bids. FG&E used the Enermetrix Exchange to post its electric default service solicitations in September 2001 and March 2002 and Enermetrix earned approximately \$19,000 in fees from these transactions. At the time of these solicitations, FG&E's parent, Unitil Corporation, had an approximately 9% ownership interest in Enermetrix. The MDTE is investigating whether FG&E is in compliance with relevant statutes and regulations pertaining to transactions with affiliated companies and the MDTE's Order setting forth the requirements for the pricing and procurement of default service. FG&E and the Attorney General have completed briefing of the case 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 April 1, 2003, UES filed a Petition with the NHPUC for authority to adjust its Stranded Cost Charge and to issue short-term debt. UES requested authority to adjust the Stranded Cost Charge in order to recover fuel and purchased power under-collection of approximately \$8.2 million. The under-collection is due to the increases in fuel prices in 2003. UES also requested authority to increase its short-term debt limits to meet current and future working capital requirements, provide needed financial flexibility and optimize the cost and timing of future long-term financings. In regards to the request for an adjustment to the UES Stranded Cost Charge, the NHPUC also issued an order authorizing recovery of its under-collection over a twenty-two month period, with interest, beginning July 1, 2003. In May, 2003, the NHPUC approved an increase in UES' short-term debt limit on a temporary basis pending further hearings on UES' financing plans. In September, 2003, the NHPUC approved a Stipulation among UES, the NHPUC Staff and certain other parties resolving all outstanding issues in this docket. The NHPUC Order approved the continuation of the temporary increase in UES' short-term debt limit until April 30, 2004, and also allowed the receipt by UES of approximately \$5-6 million of additional equity capital based upon a capital contribution from Unitil Corporation, to be used to pay down existing short-term debt of UES.

In June, 2003, the SEC issued an Order authorizing Unitil Corporation and its subsidiaries to increase Unitil Corporation's short-term borrowing limits from \$45 million to \$55 million and FG&E's short-term borrowing limits from \$30 million to \$35 million through June 30, 2006, the Authorization Period. The increased short-term borrowing limits were authorized with the condition that Unitil Corporation, UES and FG&E maintain a common equity level of at least 30% of its consolidated capitalization during the Authorization Period.

In July, 2003, FG&E filed a petition with the MDTE for authority to issue \$10,000,000 in unsecured long term debt at a rate of 6.79%. The MDTE approved the Petition in September, 2003.

In September, 2003, FG&E filed amendments to its Open Access Transmission Tariff (OATT) with the Federal Energy Regulatory Commission (FERC). Under this tariff, FG&E provides transmission service to wholesale customers who request transmission of energy across its system. FG&E currently has two such customers under its tariff. FG&E is also a customer of its own tariff, taking transmission service on behalf of its retail customers. In this filing, FG&E proposes to revise its transmission rates to establish a formula based rate and reflect annual cost increases of approximately \$260,000. FERC action on the amendments is pending.

In August , 2003, Northeast Utilities filed with FERC to revise its transmission rates to establish and implement a formula based rate, replacing a stated (fixed) rate. The impact of the proposed rate change is an increase in transmission costs of over \$600,000 per year for Unitil Power, which will ultimately be passed through to UES. UES recovers its transmission costs through its External Delivery Charge on a fully reconciling basis and therefore changes in this item do not reflect net income. On September 16, 2003, Unitil Power and UES jointly filed a Motion to Intervene and Limited Protest. FERC action on the petition is pending.

## **ENVIRONMENTAL MATTERS**

**Former Electric Generating Station** – As discussed in Note 7 to these Financial Statements, the Company is remediating environmental conditions at a former electric generating station located at Sawyer Passway, in Fitchburg, Massachusetts. During the first nine months of 2003, expenditures on this project amounted to \$3.5 million which was funded from insurance settlement reserves. As of September 30, 2003, net of amounts expended through the third quarter of 2003, the remaining project remediation cost was estimated to be approximately \$150,000, which is fully reserved for on the balance sheet.

**Item 1. Financial Statements**

**UNITIL CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATED STATEMENTS OF EARNINGS**

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

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<b>2003</b>	2002	<b>2003</b>	2002
<b>Operating Revenues</b>				
Electric	\$ 49,362	\$ 45,157	\$ 145,448	\$ 123,814
Gas	3,269	2,696	21,029	13,452
Other	261	154	846	547
Total Operating Revenues	<u>52,892</u>	<u>48,007</u>	<u>167,323</u>	<u>137,813</u>
<b>Operating Expenses</b>				
Fuel and Purchased Power	33,523	31,760	101,425	85,246
Gas Purchased for Resale	1,605	1,390	12,050	7,412
Operation and Maintenance	7,919	6,045	22,175	18,161
Depreciation and Amortization	4,488	3,954	13,752	11,110
Provisions for Taxes:				
Local Property and Other	1,201	1,091	3,780	3,476
Federal and State Income	804	457	2,745	2,251
Total Operating Expenses	<u>49,540</u>	<u>44,697</u>	<u>155,927</u>	<u>127,656</u>
<b>Operating Income</b>	<b>3,352</b>	<b>3,310</b>	<b>11,396</b>	<b>10,157</b>
Sale of Non-Utility Investment, net of tax	-	-	-	(82)
Other Non-Operating Expenses	(71)	44	31	135
<b>Income Before Interest Expense</b>	<b>3,423</b>	<b>3,266</b>	<b>11,365</b>	<b>10,104</b>
Interest Expense, Net	1,926	1,825	5,853	5,551
<b>Net Income</b>	<b>1,497</b>	<b>1,441</b>	<b>5,512</b>	<b>4,553</b>
Less: Dividends on Preferred Stock	59	63	177	190
<b>Earnings Applicable to Common Shareholders</b>	<b>\$ 1,438</b>	<b>\$ 1,378</b>	<b>\$ 5,335</b>	<b>\$ 4,363</b>
Average Common Shares Outstanding - Basic	4,758,295	4,743,696	4,750,203	4,743,696
Average Common Shares Outstanding - Diluted	4,783,642	4,768,825	4,770,469	4,767,796
Earnings Per Common Share	\$ 0.30	\$ 0.29	\$ 1.12	\$ 0.92
Dividends Declared Per Share of Common Stock (Note 2)	\$ 0.345	\$ 0.345	\$ 1.38	\$ 1.38

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

**UNITIL CORPORATION AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED BALANCE SHEETS**  
(000's)

	(UNAUDITED) September 30,		(AUDITED) December 31,
	2003	2002	2002
<b>ASSETS:</b>			
<b>Utility Plant:</b>			
Electric	\$ 207,302	\$ 191,219	\$ 193,152
Gas	46,285	42,255	44,796
Common	27,408	28,566	28,796
Construction Work in Progress	3,244	5,367	5,658
Total Utility Plant	284,239	267,407	272,402
Less: Accumulated Depreciation	91,122	82,491	83,201
Net Utility Plant	193,117	184,916	189,201
<b>Current Assets:</b>			
Cash	2,191	4,001	7,160
Accounts Receivable - Less Allowance for Doubtful Accounts of \$709, \$536 and \$372	17,276	20,583	19,513
Refundable Taxes	262	(21)	4,851
Materials and Supplies	3,664	2,710	2,323
Prepayments	2,917	1,476	1,735
Accrued Revenue	9,200	(218)	4,842
Total Current Assets	35,510	28,531	40,424
<b>Noncurrent Assets:</b>			
Regulatory Assets	241,848	143,656	244,011
Prepaid Pension Costs	---	10,861	---
Debt Issuance Costs	1,711	1,775	1,755
Other Noncurrent Assets	4,413	5,530	5,392
Total Noncurrent Assets	247,972	161,822	251,158
<b>TOTAL</b>	<b>\$ 476,599</b>	<b>\$ 375,269</b>	<b>\$ 480,783</b>

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

**UNITIL CORPORATION AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED BALANCE SHEETS (Cont.)**  
(000's)

	(UNAUDITED) September 30,		(AUDITED) December 31,
	2003	2002	2002
<b>CAPITALIZATION AND LIABILITIES:</b>			
<b>Capitalization:</b>			
Common Stock Equity	\$ 73,470	\$ 72,781	\$ 74,350
Preferred Stock, Non-Redeemable, Non-Cumulative	225	225	225
Preferred Stock, Redeemable, Cumulative	3,044	3,349	3,097
Long-Term Debt, Less Current Portion	101,029	104,289	104,226
Total Capitalization	177,768	180,644	181,898
<b>Current Liabilities:</b>			
Long-Term Debt, Current Portion	3,257	3,238	3,243
Capitalized Leases, Current Portion	601	843	800
Accounts Payable	13,834	14,234	14,221
Short-Term Debt	42,305	25,745	35,990
Dividends Declared and Payable	1,716	1,761	77
Refundable Customer Deposits	1,415	1,342	1,336
Interest Payable	1,884	1,880	1,311
Other Current Liabilities	4,031	7,081	9,062
Total Current Liabilities	69,043	56,124	66,040
<b>Deferred Income Taxes</b>	51,660	46,552	47,332
<b>Noncurrent Liabilities:</b>			
Power Supply Contract Obligations	174,826	83,339	175,657
Capitalized Leases, Less Current Portion	528	2,513	2,534
Other Noncurrent Liabilities	2,774	6,097	7,322
Total Noncurrent Liabilities	178,128	91,949	185,513
<b>TOTAL</b>	<b>\$ 476,599</b>	<b>\$ 375,269</b>	<b>\$ 480,783</b>

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

**UNITIL CORPORATION AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(000's)  
(UNAUDITED)

	Nine Months Ended September 30,	
	2003	2002
<b>Cash Flow from Operating Activities:</b>		
Net Income	\$ 5,512	\$ 4,553
Adjustments to Reconcile Net Income to Cash		
Provided by Operating Activities:		
Depreciation and Amortization	13,752	11,110
Deferred Tax Provision	1,010	(27)
Gain on Sale of Investment, net	--	(82)
Changes in Current Assets and Liabilities:		
Accounts Receivable	2,237	(3,450)
Prepayments and other Current Assets	2,066	2,811
Accrued Revenue	(4,358)	1,548
Accounts Payable	(387)	(5,850)
Other Current Liabilities	(4,379)	1,207
Other, net	(1,710)	(4,086)
Cash Provided by Operating Activities	13,743	7,734
<b>Cash Flows from Investing Activities:</b>		
Acquisition of Property, Plant and Equipment	(16,662)	(14,388)
Other, net	--	1,535
Cash Used in Investing Activities	(16,662)	(12,853)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from Short-Term Debt	6,315	11,945
Repayment of Long-Term Debt	(3,183)	(3,167)
Dividends Paid	(5,102)	(5,122)
Issuance of Common Stock	476	---
Retirement of Preferred Stock	(53)	(35)
Repayment of Capital Lease Obligations	(503)	(577)
Cash Provided By (Used in Financing) Activities	(2,050)	3,044
Net Decrease in Cash	(4,969)	(2,075)
Cash at Beginning of Period	7,160	6,076
Cash at End of Period	\$ 2,191	\$ 4,001
<b>Supplemental Cash Flow Information:</b>		
Interest Paid	\$ 6,327	\$ 6,462
Income Taxes Refunded	2,581	46
<b>Supplemental Schedule of Noncash Activities:</b>		
Capital Leases Incurred	\$ 95	\$ 198

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

**UNITIL CORPORATION AND SUBSIDIARY COMPANIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(UNAUDITED)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**UNITIL'S SIGNIFICANT ACCOUNTING POLICIES ARE DESCRIBED IN NOTE 1 TO THE FINANCIAL STATEMENTS IN ITEM 8 OF PART 2 OF UNITIL CORPORATION'S FORM 10-K FOR DECEMBER 31, 2002 AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 28, 2003.**

**Nature of Operations** – Unitil Corporation (Unitil or the Company) is registered with the Securities and Exchange Commission (SEC) as a public utility holding company under the Public Utility Holding Company Act of 1935 (1935 Act). 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).

Unitil's principal business is the retail sale and distribution of electricity and related services in several cities and towns in the seacoast and capital city areas of New Hampshire, and both electricity and gas and related services in north central Massachusetts, through Unitil's two wholly-owned retail distribution utility subsidiaries, FG&E and UES. The Company's wholesale electric power utility subsidiary, Unitil Power, principally provides electric power supply to UES for resale at retail. With respect to rates and other business and financial matters, UES is subject to regulation by the New Hampshire Public Utilities Commission (NHPUC), FG&E is regulated by the Massachusetts Department of Telecommunications & Energy (MDTE), and Unitil Power, UES and FG&E are regulated by the Federal Energy Regulatory Commission (FERC).

Unitil Realty owns and manages the Company's corporate office building and property located in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Service provides, at cost, centralized management, administrative, accounting, financial, engineering, information systems, regulatory, planning, procurement and other services to its affiliated Unitil companies. Unitil Resources is the Company's wholly-owned non-utility subsidiary and provides energy brokering, consulting and management related services within the United States. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly owned subsidiaries of Unitil Resources.

**Basis of Presentation** – The consolidated financial statements include the accounts of Unitil and all of its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, the interim financial statements include all necessary adjustments to conform to the fair presentation of the Company's results of operations and financial position for the periods presented. Certain prior period amounts on the financial statements have been reclassified to conform with current presentation.

**Regulatory Accounting** – The Company's utility operating subsidiaries are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." The Company expects to meet the criteria for the application of SFAS No. 71 for the foreseeable future.

**Newly Issued Pronouncements** – In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and replaces the current accounting guidance relating to the consolidation of certain special purpose entities (SPE's). FIN 46 requires identification of the Company's participation in variable interest entities (VIE's) established on the basis of contractual, ownership or other monetary interests. A VIE is defined as an entity in which the equity investors



do not have a controlling interest and the equity investment at risk is insufficient to fund future activities to permit the VIE to operate on a stand alone basis without receiving additional financial support.

For entities identified as VIE's, FIN 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE bears a majority of the risk to the VIE's expected losses, or stands to gain from a majority of the expected returns of the VIE. The party with the majority variable interest is considered to be the primary beneficiary (Primary Beneficiary) of the VIE. As a result, entities that are deemed to be VIE's in which the Company is identified as the Primary Beneficiary were required to be consolidated beginning in July, 2003. At its Board meeting on October 8, 2003, the FASB decided to defer implementation of this requirement until the fourth quarter of 2003. The Company intends to implement FIN 46 for financial reporting purposes in the fourth quarter of 2003.

The Company has reviewed its investments and affiliations and determined that it has a variable interest in the Unitil Retiree Trust (URT), a special purpose entity established January, 1993. The URT was established to promote and maintain a variety of recreational, cultural, social and welfare (including medical insurance, counseling and health) programs for its members. All retirees of the Company are eligible for membership in the URT. The URT earns fees, used to fund its activities, from the Company and without those fees it is uncertain whether the URT would be able to meet its future obligations to the Company's retirees and continue to operate on a stand alone basis. The Company has determined that it is the Primary Beneficiary of the URT's services. The Company anticipates that it will assume the obligations of the URT on a going forward basis and is exploring its options to formalize a new structure in which the funding of these obligations is provided directly by the Company. There are no other entities identified by the Company that qualify as VIE's under FIN 46.

The URT is an organization of retirees that became effective in 1993, and operates under the direction of an independent Board of Trustees whose voting members are comprised of former employees of the Company. FIN 46 requires that the assets and liabilities of the VIE be measured at fair value and recorded by the Primary Beneficiary. The Company is a regulated enterprise and its financial statements are reported on the accrual basis and in conformity with Generally Accepted Accounting Principles (GAAP) and SFAS 71. As a result of the assumption of the obligations of the URT, the Company is expected to recognize a liability, over 20 years, for the retiree health and welfare benefits previously provided by the URT on the accrual basis in conformity with SFAS No. 106, "Accounting for Postretirement Benefits Other than Pensions," (PBOP). At June 30, 2003, the Company's maximum exposure to loss as a result of its relationship with the URT, in the event that the URT could no longer fund its retiree programs, would be limited to the amount of the current and future PBOP liability that may not be recovered in retail rates. However, based on regulatory precedent, the Company believes all of these costs are recoverable as normal utility operating expenses.

The actuarially determined liability for PBOP retiree benefits earned before January 1, 2003, is approximately \$28.5 million. This amount is the Company's transition obligation (Transition Obligation) and the Company has elected, under SFAS 106, to amortize this liability over 20 years. The Company expects to recover the Transition Obligation and the annual PBOP expense recorded by its regulated subsidiaries in retail rates to be established in future rate proceedings in the regulatory jurisdictions where the Company operates. Accordingly, the Company will defer the difference between the recording of PBOP expenses on the accrual basis and the amount of PBOP expenses on the "pay as you go" basis, which the Company currently collects in rates. These deferrals will create Regulatory Assets under SFAS 71 of approximately \$2 million annually until the Company completes the regulatory proceedings to establish new retail rates.

During fiscal 2003, the Company adopted Statement No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." The adoption of this statement did not have a material impact on the Company's financial position or results of operations.

In April 2003, the FASB issued Statement No. 149 (SFAS 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies financial accounting and reporting requirements for derivative instruments, including derivative instruments embedded in other contracts, and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." In general, SFAS 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company has determined that adoption of this statement will not have a material impact on the Company's financial position or results of operations.

In May 2003, the FASB issued Statement No. 150 (SFAS 150), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability, or in certain instances, as an asset. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, otherwise SFAS 150 is generally effective with interim periods beginning after June 15, 2003. The Company has determined that adoption of this statement will not have a material impact on the Company's financial position or results of operations.

**Reclassifications** – Certain amounts previously reported have been reclassified to conform to current year presentation.

**NOTE 2 – DIVIDENDS DECLARED PER SHARE**

Declaration Date	Date Paid (Payable)	Shareholder of Record Date	Dividend Amount
09/26/03	11/14/03	10/31/03	\$ 0.345
06/26/03	08/15/03	08/01/03	\$ 0.345
03/21/03	05/15/03	05/01/03	\$ 0.345
01/16/03	02/15/03	02/01/03	\$ 0.345
09/27/02	11/15/02	11/01/02	\$ 0.345
06/20/02	08/15/02	08/01/02	\$ 0.345
03/21/02	05/15/02	05/01/02	\$ 0.345
01/17/02	02/15/02	02/01/02	\$ 0.345

**NOTE 3 – COMMON STOCK AND PREFERRED STOCK**

During the third quarter of 2003, the Company sold 9,242 shares of its Common Stock, at an average price of \$25.46 per share, in connection with its Dividend Reinvestment and Stock Purchase Plan and its 401(k) plans. Net proceeds of \$235,317 were used to reduce short-term borrowings.

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. 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 May 12, 2003, 10,600 shares were issued in conjunction with the Plan. The aggregate market value of the restricted stock at the date of issuance was \$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.

During the third quarter of 2002, the Company did not sell any additional shares of its Common Stock.

Details on preferred stock at September 30, 2003, September 30, 2002 and December 31, 2002 are shown below:

(Amounts in Thousands)

	September 30,		December 31,
	<b>2003</b>	2002	2002
Preferred Stock:			
Non-Redeemable, Non-Cumulative, 6%, \$100 Par Value	<b>\$225</b>	\$225	\$225
Redeemable, Cumulative, \$100 Par Value:			
8.70% Dividend Series	<b>215</b>	215	215
5% Dividend Series	---	84	---
6% Dividend Series	---	168	---
8.75% Dividend Series	<b>313</b>	333	333
8.25% Dividend Series	<b>376</b>	385	385
5.125% Dividend Series	<b>922</b>	946	946
8% Dividend Series	<b>1,218</b>	1,218	1,218
Total Redeemable Preferred Stock	<b>3,044</b>	3,349	3,097
Total Preferred Stock	<b>\$3,269</b>	\$3,574	\$3,322

#### NOTE 4 – LONG-TERM DEBT

Details on long-term debt at September 30, 2003, September 30, 2002 and December 31, 2002 are shown below:

(Amounts in Thousands)

	September 30,		December 31,
	2003	2002	2002
<b>Unitil Energy Systems, Inc.:</b>			
First Mortgage Bonds:			
Series I, 8.49%, due October 14, 2024	\$ 6,000	\$ 6,000	\$ 6,000
Series J, 6.96%, due September 1, 2028	10,000	10,000	10,000
Series K, 8.00%, due May 1, 2031	7,500	7,500	7,500
Series L, 8.49%, due October 14, 2024	9,000	9,000	9,000
Series M, 6.96%, due September 1, 2028	10,000	10,000	10,000
Series N, 8.00%, due May 1, 2031	7,500	7,500	7,500
<b>Fitchburg Gas and Electric Light Company:</b>			
Promissory Notes:			
8.55% Notes due March 31, 2004	3,000	6,000	6,000
6.75% Notes due November 30, 2023	19,000	19,000	19,000
7.37% Notes due January 15, 2029	12,000	12,000	12,000
7.98% Notes due June 1, 2031	14,000	14,000	14,000
<b>Unitil Realty Corp.</b>			
Senior Secured Notes:			
8.00% Notes Due August 1, 2017	6,286	6,527	6,469
Total	104,286	107,527	107,469
Less: Installments due within one year	3,257	3,238	3,243
Total Long-term Debt	\$ 101,029	\$ 104,289	\$ 104,226

#### NOTE 5 – SEGMENT INFORMATION

The following table provides significant segment financial data for the three and nine months ended September 30, 2003 and 2002:

Three Months Ended September 30, 2003 (000's)	Non-					Eliminations	Total
	Electric	Gas	Other	Regulated	Regulated		
Revenues	\$ 49,362	\$ 3,269	\$ 7	\$ 254			\$ 52,892
Segment Profit (Loss)	1,936	(497)	134	(135)			1,438
Identifiable Segment Assets	379,314	82,108	20,456	1,467		(6,746)	476,599
Capital Expenditures	3,414	1,363	259	5			5,041
Three Months Ended September 30, 2002 (000's)	Non-					Eliminations	Total
	Electric	Gas	Other	Regulated	Regulated		
Revenues	\$ 45,157	\$ 2,696	\$ 7	\$ 147			\$ 48,007
Segment Profit (Loss)	2,220	(635)	(3)	(204)			1,378
Identifiable Segment Assets	283,132	85,497	23,429	1,378		(18,167)	375,269
Capital Expenditures	4,512	917	183	20			5,632

**Nine Months Ended  
September 30, 2003 (000's)**

	<b>Electric</b>	<b>Gas</b>	<b>Other</b>	<b>Non-Regulated</b>	<b>Elimination</b>	<b>Total</b>
Revenues	\$ 145,448	\$ 21,029	\$ 22	\$ 824		\$167,323
Segment Profit (Loss)	5,016	757	146	(584)		5,335
Identifiable Segment Assets	379,314	82,108	20,456	1,467	(6,746)	476,599
Capital Expenditures	13,462	2,865	320	15		16,662

**Nine Months Ended  
September 30, 2002 (000's)**

Revenues	\$ 123,814	\$ 13,452	\$ 22	\$ 525		\$137,813
Segment Profit (Loss)	5,212	(585)	165	(429)		4,363
Identifiable Segment Assets	283,132	85,497	23,429	1,378	(18,167)	375,269
Capital Expenditures	11,725	2,460	183	20		14,388

**NOTE 6 – REGULATORY MATTERS**

**UNITIL'S REGULATORY MATTERS ARE DESCRIBED IN NOTE 15 TO THE FINANCIAL STATEMENTS IN ITEM 8 OF PART 2 OF UNITIL CORPORATION'S FORM 10-K FOR DECEMBER 31, 2002 AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 28, 2003.**

The Unitil Companies are regulated by various federal and state agencies, including the SEC, the FERC, and state regulatory authorities with jurisdiction over public utilities, including the NHPUC and the MDTE. In recent years, there has been significant legislative and regulatory activity to restructure the utility industry in order to introduce greater competition in the supply and sale of electricity and gas, while continuing to regulate the distribution operations of Unitil's utility operating subsidiaries. Unitil implemented the restructuring of its electric operations in Massachusetts in 1998 and implemented the final phase of a restructuring settlement for its New Hampshire electric operations on May 1, 2003. Following electric restructuring, the Unitil 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.

**Massachusetts Electric Operations Restructuring** – Beginning March 1, 1998, FG&E implemented its Restructuring Plan under the Massachusetts Electric Utility Restructuring Act of 1997 (Restructuring Act). FG&E completed the divestiture of its entire regulated power supply business in 2000 in accordance with the Restructuring Plan. All FG&E distribution customers must pay a transition charge that provides for the recovery of costs associated with FG&E's power portfolio which were stranded as a result of the divestiture of those assets. The plant and Regulatory Asset balances that will be recovered through the transition charge have been approved by the MDTE as part of FG&E's annual Reconciliation Filings. The Restructuring Act also requires FG&E to obtain and provide power, through either Standard Offer Service (SOS) or Default Service, for retail customers who choose not to buy, or are unable to purchase, energy from a competitive supplier. FG&E must provide SOS through February 2005 at rate levels which guarantee rate reductions required by the Restructuring Act. New distribution customers and customers no longer eligible for SOS are eligible to receive Default Service at prices set periodically based on market solicitations as approved by regulators.

The MDTE approved the rate adjustments pursuant to FG&E's 2002 Reconciliation Filing for effect on January 1, 2003, subject to investigation. This adjustment resulted in a rate reduction of approximately 4.4% for residential SOS customers. The reduction is due to a decrease in the SOS fuel adjustment, which does not affect net income. A final MDTE order is pending.

The MDTE approved an increase to FG&E's SOS fuel adjustment, effective May 1, 2003, to reflect a rise in prices for fuel oil and natural gas. The bill increase to residential SOS customers was approximately 1.9%, and did not

affect net income. A subsequent additional increase to FG&E's SOS fuel adjustment was approved by the MDTE effective September 1, 2003. The bill increase to residential SOS customers was approximately 3.9%.

In April 2003, the MDTE issued an order addressing costs to be included in default service prices, providers of default service, and procurement and pricing of default service. The MDTE determined that procurement related wholesale costs and direct retail costs (such as bad debts), should be included in the price. Distribution companies will continue to function as default service providers for their customers. In September 2003, the MDTE directed distribution companies to implement quarterly procurement of default service for their medium and large C&I customers. The six-month procurement term for small customers will be replaced with a process in which 50% of supply will be procured semi-annually for twelve month terms. Separate proceedings will be opened for each distribution company to determine the amount of costs to be transferred from base rates to default service rates and the appropriate adjustment to be applied to each rate class' base rates.

**Massachusetts Gas Operations Restructuring** – Following a three year state-wide collaborative process on the unbundling, or separation, of discrete services offered by natural gas local distribution companies (LDCs), the MDTE approved regulations and tariffs for FG&E and other LDCs to provide full customer choice effective November 1, 2000. The MDTE ruled that LDCs would continue to have an obligation to provide gas supply and delivery services for a five-year transition period, with a review after three years. This review is expected to be initiated in late 2003. The MDTE also required mandatory assignment of LDCs' pipeline capacity to competitive marketers supplying customers during the transition period. This mandatory capacity assignment protects LDCs from exposure to certain stranded gas supply costs during the transition period.

**New Hampshire Restructuring** – In 2002, the Company's New Hampshire electric utility subsidiaries, Concord Electric Company (CECo), Exeter & Hampton Electric Company (E&H) and Unitil Power Corp. (Unitil Power), received approval for a comprehensive restructuring proposal from the NHPUC. This approved proposal included the merger of E&H with and into CECo. CECo changed its name to Unitil Energy Systems, Inc. (UES) immediately following the merger. Under Unitil's restructuring plan, Unitil agreed to divest its existing power supply portfolio and conduct a solicitation for new power supplies from which to meet UES' ongoing Transition and Default Service obligations in order to implement customer choice for UES' customers May 1, 2003. In March 2003, the NHPUC approved the contract among Unitil Power, UES and Mirant Americas Energy Marketing, LP (MAEM), under which MAEM will purchase the entitlements to Unitil Power's Supply portfolio and provide Transition and Default Service to the customers of UES. The NHPUC also approved final tariffs for UES for stranded cost recovery and Transition and Default Service. The final amount of Unitil Power's recoverable stranded costs, calculated on the basis of the amounts agreed to be paid by the parties under such contract for the Unitil Power power supply portfolio, was determined to be \$108.7 million, with a recovery period of eight years. The costs of Transition and Default electric supply service and the costs associated with the sale and divestiture of the Unitil Power power supply portfolio are recovered "at cost" from Unitil's New Hampshire electric customers through pass through energy supply-related rate reconciliation mechanisms.

In July, 2003, MAEM and its parent, Mirant Corporation, filed for reorganization under Chapter 11 of the bankruptcy code. Under the contract with UES and Unitil Power discussed above, Mirant guarantees the performance by MAEM. Mirant has continued to honor its obligations under its contract with UES and Unitil Power post-petition and has indicated its intent to perform pending a decision to assume or reject the contract under the bankruptcy procedures. UES and Unitil Power have elected to hold back pre-petition amounts due to MAEM of approximately \$5.3 million as an offset against an equivalent pre-petition amount due from MAEM to UES and UPC. Mirant has disputed the right of Unitil Power and UES to holdback these amounts but has not sought any relief in the bankruptcy court in this regard. Unitil Power and UES filed a motion with the Bankruptcy Court in September, 2003, requesting that MAEM be required to make a decision to assume or reject the contract by December 1, 2003. The New Hampshire Office of the Consumer Advocate filed in support of the motion of UES and Unitil Power on behalf of our New Hampshire residential ratepayers. MAEM has not yet filed a response to the motion to compel it to assume or reject the agreement. UES and UPC are currently in discussions with MAEM regarding its assumptions of the agreement and the cure of its defaults under the agreement. There can be no assurance that such discussions will lead to MAEM's assumption of the agreement and cure of such defaults. Should MAEM not assume the agreement, UPC would sell the electricity under those power supply agreements into the New England power market on a short-term basis and would seek to resell the

entire portfolio on a long-term basis. The actual stranded costs UES would incur should MAEM not perform under the agreement would likely be different than the \$57.6 million which has been approved for recovery by the NHPUC. Should the actual stranded costs exceed \$57.6 million, recovery of the excess would be subject to the approval of the NHPUC. Should the NHPUC disallow recovery of some or all of any increased stranded costs, it would adversely affect our financial condition and earnings.

**Wholesale Power Market Restructuring – Standard Market Design (SMD):** New wholesale markets structured pursuant to FERC's SMD were implemented in the New England Power Pool (NEPOOL) on March 1, 2003 under the general supervision of an Independent System Operator (ISO) and the regulatory oversight of FERC. The impact of SMD on wholesale prices is not fully known at this time. Any changes in the wholesale markets as a result of SMD will be reflected in the responses of wholesale marketers to future requests for proposals to be issued by UES and FG&E to provide transition and default service to our customers.

**Regional Transmission Organization (RTO):** In January 2003, the ISO New England, Inc. announced that it intended to move forward with a New England only RTO. Implementation of an RTO would change current governance of the wholesale power markets in New England since the NEPOOL participants would not have direct input into wholesale power market rules. In October, 2003, a majority (80%) of the NEPOOL Participants Committee voted to not support filing of the package as presented at the meeting. There was also strong support for seeking FERC assistance in the process because much of what is contained in the package is acceptable to the various parties. It is unclear whether the Transmission Owners will unilaterally decide to file the transmission portion of the package with FERC, despite lack of NEPOOL support. It is also unclear whether ISO-New England will unilaterally file their portion of the package with FERC. Because a proposal has not yet been filed with FERC, the impact of an RTO implementation is not fully known at this time.

**Other Regulatory Proceedings –** Between December 2002 and January 2003, FG&E and UES received approval from their respective state regulatory commissions of accounting orders to mitigate certain accounting requirements related to pension plan assets, which have been triggered by the substantial decline in the capital markets. These approvals allow FG&E and UES to treat the additional minimum pension liability and prepaid pension costs as Regulatory Assets and avoid the reduction in equity that would otherwise be required. These regulatory orders do not pre-approve the amount of pension expense to be recovered in future rates, which recovery will be determined in future rate proceedings. Based on these approvals, Unital has included the amount of the additional minimum pension liabilities and Prepaid Pension Costs of \$12.0 million in Regulatory Assets on its balance sheet.

As to its gas operations, FG&E continues to provide a multi-year refund through its Cost of Gas Adjustment Clause in compliance with the MDTE's May 2001 Order finding that FG&E had over-collected fuel inventory finance charges. At September 30, 2003, the unamortized balance of this refund was \$1.2 million. FG&E believes a refund is not justified or warranted and has appealed the MDTE's ruling to the Massachusetts Supreme Judicial Court (SJC). A decision is expected sometime later this year or early in 2004.

In September, 2003, FG&E filed its annual cost reconciliation and revised Cost of Gas Adjustment Clause (CGAC) and Local Distribution Adjustment Clause (LDAC) with the MDTE for rates effective November 1, 2003. If approved, the winter bill to a typical residential heating customer will decrease by approximately 3.3% from current summer rates. These decreases are due to lower projected gas commodity costs and do not impact earnings.

In March 2003, the MDTE opened an investigation into FG&E's dealings with Enermetrix, Inc. (Enermetrix). Enermetrix provides an internet-based energy auction service that is used by utilities to post their natural gas and electric power needs for bids. FG&E used the Enermetrix Exchange to post its electric default service solicitations in September 2001 and March 2002 and Enermetrix earned approximately \$19,000 in fees from these transactions. At the time of these solicitations, FG&E's parent, Unital Corporation, had an approximately 9% ownership interest in Enermetrix. The MDTE is investigating whether FG&E is in compliance with relevant statutes and regulations pertaining to transactions with affiliated companies and the MDTE's Order setting forth the requirements for the pricing and procurement of default service. FG&E and the Attorney General have

completed briefing of the case 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 April 1, 2003, UES filed a Petition with the NHPUC for authority to adjust its Stranded Cost Charge and to issue short-term debt. UES requested authority to adjust the Stranded Cost Charge in order to recover fuel and purchased power under-collection of approximately \$8.2 million. The under-collection is due to the increases in fuel prices in 2003. UES also requested authority to increase its short-term debt limits to meet current and future working capital requirements, provide needed financial flexibility and optimize the cost and timing of future long-term financings. In regards to the request for an adjustment to the UES Stranded Cost Charge, the NHPUC also issued an order authorizing recovery of its under-collection over a twenty-two month period, with interest, beginning July 1, 2003. In May, 2003, the NHPUC approved an increase in UES' short-term debt limit on a temporary basis pending further hearings on UES' financing plans. In September, 2003, the NHPUC approved a Stipulation among UES, the NHPUC Staff and certain other parties resolving all outstanding issues in this docket. The NHPUC Order approved the continuation of the temporary increase in UES' short-term debt limit until April 30, 2004, and also allowed the receipt by UES of approximately \$5-\$6 million of additional equity capital based upon a capital contribution from Unutil Corporation, to be used to pay down existing short-term debt of UES.

In June, 2003, the SEC issued an Order authorizing Unutil Corporation and its subsidiaries to increase Unutil Corporation's short-term borrowing limits from \$45 million to \$55 million and FG&E's short-term borrowing limits from \$30 million to \$35 million through June 30, 2006, the Authorization Period. The increased short-term borrowing limits were authorized with the condition that Unutil Corporation, UES and FG&E maintain a common equity level of at least 30% of its consolidated capitalization during the Authorization Period.

In July, 2003, FG&E filed a petition with the MDTE for authority to issue \$10,000,000 in unsecured long term debt at a rate of 6.79%. The MDTE approved the Petition in September, 2003.

In September, 2003, FG&E filed amendments to its Open Access Transmission Tariff (OATT) with the Federal Energy Regulatory Commission (FERC). Under this tariff, FG&E provides transmission service to wholesale customers who request transmission of energy across its system. FG&E currently has two such customers under its tariff. FG&E is also a customer of its own tariff, taking transmission service on behalf of its retail customers. In this filing, FG&E proposes to revise its transmission rates to establish a formula based rate and reflect annual cost increases of approximately \$260,000. FERC action on the amendments is pending.

In August, 2003, Northeast Utilities filed with FERC to revise its transmission rates to establish and implement a formula based rate, replacing a stated (fixed) rate. The impact of the proposed rate change is an increase in transmission costs of over \$600,000 per year for Unutil Power, which will ultimately be passed through to UES. UES recovers its transmission costs through its External Delivery Charge on a fully reconciling basis and therefore changes in this item do not reflect net income. On September 16, 2003, Unutil Power and UES jointly filed a Motion to Intervene and Limited Protest. FERC action on the petition is pending.

## **NOTE 7 – ENVIRONMENTAL MATTERS**

**UNITIL'S ENVIRONMENTAL MATTERS ARE DESCRIBED IN NOTE 15 TO THE FINANCIAL STATEMENTS IN ITEM 8 OF PART 2 OF UNITIL CORPORATION'S FORM 10-K FOR DECEMBER 31, 2002 AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 28, 2003.**

The Company's past and present operations include activities that are subject to extensive federal and state environmental regulations. The Company believes that there are no material losses reasonably possible in excess of recorded amounts.

**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 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. A status of temporary closure requires FG&E to monitor the site until a feasible permanent remediation alternative can be developed and completed.

Since 1991, FG&E has recovered the environmental response costs incurred at this former MGP site pursuant to a MDTE approved Settlement Agreement (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 1882 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** – The Company has remediated environmental conditions at a former electric generating station located at Sawyer Passway, which FG&E sold to WRW, a general partnership, in 1983. Rockware International Corporation (Rockware), an affiliate of WRW, acquired rights to the electric equipment in the building and intended to remove, recondition and sell this equipment. During 1985, Rockware demolished several exterior walls of the generating station in order to facilitate removal of certain equipment. The demolition of the walls and the removal of generating equipment resulted in damage to asbestos-containing insulation materials inside the building, which had been intact and encapsulated at the time of the sale of the structure to WRW.

When Rockware and WRW encountered financial difficulties and failed to respond adequately to Orders of the environmental regulators to remedy the situation, FG&E agreed to take steps at that time and obtained DEP approval to temporarily enclose, secure and stabilize the facility. Based on that approval, between September and December 1989, contractors retained by FG&E stabilized the facility and secured the building. This work did not permanently resolve the asbestos problems caused by Rockware, but was deemed sufficient for the then foreseeable future.

Due to the continuing deterioration of this former electric generating station and Rockware's continued lack of performance, FG&E, in concert with the DEP and the U.S. Environmental Protection Agency (EPA), conducted further testing and survey work during 2001 to ascertain the environmental status of the building. Those surveys revealed continued deterioration of the asbestos-containing insulation materials in the building.

By letter dated May 1, 2002, the EPA notified FG&E that it was a Potentially Responsible Party for planned remedial activities at the site and invited FG&E to perform or finance such activities. FG&E and the EPA entered into an Agreement on Consent, whereby FG&E, without an admission of liability, will conduct environmental remedial action to abate and remove asbestos-containing and other hazardous materials. FG&E awarded contracts for all aspects of the abatement work, which is presently nearing completion. FG&E received significant coverage from its insurance carrier. The Company believes that these funds will be sufficient to complete this remediation and that resolution of this matter will not have a material adverse impact on the Company's financial position.

During the first nine months of 2003, expenditures on this project amounted to \$3.5 million which was funded from insurance settlement reserves. As of September 30, 2003, net of amounts expended through the third quarter of 2003, the remaining project remediation cost was estimated to be approximately \$150,000, which is fully reserved for on the balance sheet.

## **NOTE 8 – SUBSEQUENT EVENTS**

**Unitil Corporation Common Stock Offering** – On October 29, 2003, the Company raised approximately \$17.1 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 will use the proceeds from this offering to make an initial equity infusion of \$12 million into its two principal utility operating subsidiaries, Unitil Energy Systems, Inc. (UES) and Fitchburg Gas and Electric Light Company (FG&E) to replace short-term indebtedness incurred to support ongoing investment in utility distribution facilities, and for other general corporate purposes. The amount of the offering is reflected in the Company's pro-forma capitalization and short-term debt as of September 30, 2003, shown below.

**Fitchburg Gas and Electric Light Company Long-Term Notes Issuance** - On October 28, 2003, Unitil's Massachusetts utility subsidiary, 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 and are included in the Company's pro-forma capitalization and short-term debt as of September 30, 2003, shown below.

Had the equity and debt transactions discussed above occurred as of September 30, 2003, the effect on the Company's capitalization and short-term debt would have been as follows:

September 30, 2003	(Unaudited)		
	Historical	Adjustment	Pro-forma
<b>Capitalization:</b>			
Common Stock Equity	\$ 73,470	\$ 17,100	\$ 90,570
Preferred Stock, Non-Redeemable, Non-Cumulative	225		225
Preferred Stock, Redeemable, Cumulative	3,044		3,044
Long-Term Debt, Less Current Portion	101,029	10,000	111,029
Total Capitalization	<u>\$ 177,768</u>	<u>\$ 27,100</u>	<u>\$ 204,868</u>
Short-Term Debt	<u>\$ 42,505</u>	<u>\$ (27,100)</u>	<u>\$ 15,405</u>

### **Item 3. Quantitative and Qualitative Disclosures About 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 fuel and gas 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.

Interest rate risk is discussed above in Part I, Item 2 on page 7.

### **Item 4. Controls and Procedures**

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer, Chief Financial Officer and Controller, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer, Chief Financial Officer and Controller concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings.

There have been no significant changes in the Company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

## **PART II. OTHER INFORMATION**

### ***Item 1. Legal Proceedings***

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. In the opinion of the Company's 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. (See Notes 6 and 7.)

In March 2003, the New Hampshire Public Utilities Commission (NHPUC) approved the Agreement among Unitil Power, UES and Mirant Americas Energy Marketing, LP (MAEM), under which MAEM will purchase the entitlements to Unitil Power's Supply portfolio and provide Transition and Default Service to the customers of UES. On July 14, 2003, MAEM and its parent, Mirant Corporation (Mirant), filed for reorganization under Chapter 11 of the bankruptcy code. Under the agreement with UES and Unitil Power discussed above, Mirant guarantees the performance by MAEM. This matter is discussed in greater detail in the New Hampshire Restructuring section of Note 6.

## **Item 6. Exhibits and Reports on Form 8-K**

### (a) Exhibits

<u>Exhibit No.</u>	<u>Description of Exhibit</u>	<u>Reference</u>
10.1	Form of Severance Agreement between the Company and the persons listed at the end of such Agreement	Filed herewith
10.2	Form of Severance Agreement between the Company and the persons listed at the end of such Agreement	Filed herewith
11	Computation in Support of Earnings Per Average Common Share	Filed herewith
31.1	Certifications of Chief Executive Officer, Chief Financial Officer and Controller Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	File herewith
32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Controller Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
99.1	Unitil Corporation Press Release Dated October 23, 2003 Announcing Pricing of Equity Offering	Filed herewith
99.2	Unitil Corporation Press Release Dated October 28, 2003 Announcing Sale of Long-Term Notes by FG&E	Filed herewith
99.3	Unitil Corporation Press Release Dated October 30, 2003 Announcing Earnings For the Quarter Ended September 30, 2003	Filed herewith

### (b) Reports on Form 8-K

On August 29, 2003, Unitil Corporation filed a Current Report on Form 8-K reporting that it had filed a registration statement on Form S-3 with the Securities and Exchange Commission covering the proposed issuance of shares of Unitil common stock. In this Form 8-K, Unitil Corporation also noted that, in its registration statement on Form S-3, it disclosed that its wholly owned subsidiary, Fitchburg Gas and Electric Light Company, proposes to issue unsecured promissory notes in a private placement.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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UNITIL CORPORATION  
(Registrant)

Date: October 29, 2003

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/s/ Mark H. Collin  
Mark H. Collin  
Chief Financial Officer

Date: October 29, 2003

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/s/ Laurence M. Brock  
Laurence M. Brock  
Controller

## UNITIL CORPORATION AND SUBSIDIARY COMPANIES

## COMPUTATION OF EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING

*(000's except for per share data)*

(UNAUDITED)

BASIC EARNINGS PER SHARE	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net Income	\$1,497	\$1,441	\$5,512	\$4,553
Less: Dividend Requirement on Preferred Stock	<u>59</u>	<u>63</u>	<u>177</u>	<u>190</u>
Net Income Applicable to Common Shareholders	<u>\$1,438</u>	<u>\$1,378</u>	<u>\$5,335</u>	<u>\$4,363</u>
Average Number of Common Shares Outstanding	4,758,295	4,743,696	4,750,203	4,743,696
Basic Earnings Per Common Share	\$0.30	\$0.29	\$1.12	\$0.92

DILUTED EARNINGS PER SHARE	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net Income	\$1,497	\$1,441	\$5,512	\$4,553
Less: Dividend Requirement on Preferred Stock	<u>59</u>	<u>63</u>	<u>177</u>	<u>190</u>
Net Income Applicable to Common Shareholders	<u>\$1,438</u>	<u>\$1,378</u>	<u>\$5,335</u>	<u>\$4,363</u>
Average Number of Common Shares Outstanding	4,783,642	4,768,825	4,770,469	4,767,796
Diluted Earnings per Common Share	\$0.30	\$0.29	\$1.12	\$0.92