INDEX OF SCHEDULES:

Schedule DLC-1	**Historical and Budget Capital Spending**

Northern Utilities - New Hampshire
Historical Capital Spending

Category	Mar - Dec 2010	2011	2012	2013	2014 Budget
Blankets - Gas	$ 1,962,400	$ 3,173,200	$ 3,352,600	$ 5,628,300	$ 7,033,700
Blankets - Water Heater	63,600	68,100	82,900	95,300	216,300
Communications	100,400	436,100	342,900	14,600	-
Distribution	6,196,900	6,484,400	8,655,900	9,454,500	10,792,100
Tools, Shop, Garage	198,000	22,500	178,900	(5,400)	33,800
Office	5,800	2,600	25,600	2,500	7,500
Structures	81,900	15,200	131,000	52,100	100,000
Total Capital Spending	$ 8,609,000	$ 10,202,100	$ 12,769,800	$ 15,241,900	$ 18,183,400

Northern Utilities - Maine
Historical Capital Spending

Category	Mar - Dec 2010	2011	2012	2013	2014 Budget
Blankets - Gas	$ 4,203,900	$ 3,876,200	$ 5,188,600	$ 9,053,800	$ 9,793,900
Blankets - Water Heater	81,700	97,000	97,200	64,000	120,800
Communications	79,800	155,100	389,000	12,600	-
Distribution	4,995,100	9,775,400	13,114,500	15,426,200	15,316,400
Tools, Shop, Garage	94,400	201,300	63,400	36,800	32,900
Office	6,100	1,600	1,200	4,100	3,500
Structures	14,100	28,800	15,900	164,400	79,000
Total Capital Spending	$ 9,475,100	$ 14,135,400	$ 18,869,800	$ 24,761,900	$ 25,346,500

NORTHERN UTILITIES, INC.
SOURCES AND USES OF FUNDS
Proposed Sale of $50,000,000 Senior Unsecured Notes
($ In Thousands)

Sources of Funds	
Proposed Sale of Senior Unsecured Notes	$50,000
Total Sources of Funds	**$50,000**
Uses of Funds	
Repay Short-Term Debt and General Corporate Purposes	$49,495
Fees and Expenses	505
Total Uses of Funds	**$50,000**

NORTHERN UTILITIES, INC.
ESTIMATED COST OF FINANCING
Proposed Sale of $50,000,000 Senior Unsecured Notes
($ in Thousands)

Estimated Cost of Financing	
Private Placement Fees to Placement Agents	$400
Legal Fees	100
Miscellaneous	5
Total Estimated Costs	**$505**

NORTHERN UTILITIES, INC.
AUDITED BALANCE SHEET AS OF DECEMBER 31, 2013
Proformed for the Issuance and Sale of $50,000,000 Senior Unsecured Notes
($ in Millions)

ASSETS:

	ACTUAL	ADJUSTMENTS		PRO FORMA
Utility Plant:				
Gas	$ 334.9	$ -		$ 334.9
Construction Work in Progress	4.6	-		4.6
Utility Plant	339.5	-		339.5
Less: Accumulated Depreciation	70.7	-		70.7
Net Utility Plant	268.8	-		268.8
Current Assets:				
Cash	0.5	6.5	(A)	7.0
Accounts Receivable, Net	20.3	-		20.3
Accrued Revenue	15.7	-		15.7
Due from Affiliates	0.7	-		0.7
Exchange Gas Receivable	9.8	-		9.8
Gas Inventory	0.9	-		0.9
Prepayments and Other	4.6	-		4.6
Total Current Assets	52.5	6.5		59.0
Noncurrent Assets:				
Regulatory Assets	12.6	-		12.6
Other Noncurrent Assets	8.2	0.5	(B)	8.7
Total Noncurrent Assets	20.8	0.5		21.3
TOTAL	$ 342.1	$ 7.0		$ 349.1

(A) General corporate purposes
(B) Debt issuance costs

NORTHERN UTILITIES, INC.
AUDITED BALANCE SHEET AS OF DECEMBER 31, 2013
Proformed for the Issuance and Sale of $50,000,000 Senior Unsecured Notes
($ in Millions, Except Par Value and Stock Shares Data)

	ACTUAL	ADJUSTMENTS	PRO FORMA
CAPITALIZATION AND LIABILITIES:			
Capitalization:			
Common Stock Equity:			
Common Stock, $10 Par Value			
Authorized - 200 shares			
Issued and Outstanding - 100 shares	$ 113.2	$ -	$ 113.2
Retained Earnings (Deficit)	6.2	-	6.2
Total Common Stock Equity	119.4	-	119.4
Long-term Debt	105.0	50.0 (C)	155.0
Total Capitalization	224.4	50.0	274.4
Current Liabilities:			
Accounts Payable	15.9	-	15.9
Short-Term Debt	43.0	(43.0) (D)	-
Energy Supply Obligations	9.8	-	9.8
Current Deferred Income Taxes	2.9	-	2.9
Regulatory Liabilities	0.9	-	0.9
Other Current Liabilities	3.8	-	3.8
Total Current Liabilities	76.3	(43.0)	33.3
Noncurrent Liabilities:			
Deferred Income Taxes	3.5	-	3.5
Cost of Removal Obligations	24.9	-	24.9
Retirement Benefit Obligations	10.6	-	10.6
Environmental Obligations	1.8	-	1.8
Other Noncurrent Liabilities	0.6	-	0.6
Total Noncurrent Liabilities	41.4	-	41.4
TOTAL	$ 342.1	$ 7.0	$ 349.1

(C) Proposed offering of Senior Unsecured Notes
(D) Repayment of short-term debt

NORTHERN UTILITIES, INC.
AUDITED STATEMENT OF EARNINGS FOR THE YEAR ENDED DECEMBER 31, 2013
Proformed for the Issuance and Sale of $50,000,000 Senior Unsecured Notes
($ in Millions)

	ACTUAL	ADJUSTMENTS		PRO FORMA
Operating Revenues	$ 137.8	$ -		$ 137.8
Operating Expenses:				
Cost of Gas Sales	76.9	-		76.9
Operation and Maintenance	22.6	-		22.6
Depreciation and Amortization	11.5	0.03	(A)	11.5
Taxes Other Than Income Taxes	4.9	-		4.9
Total Operating Expense	115.9	0.03		115.9
Operating Income	21.9	(0.03)		21.9
Interest Expense	8.0	2.48	(B)	10.5
Other Income	0.2	-		0.2
Income Before Income Taxes	14.1	(2.51)		11.6
Income Taxes	5.3	(0.99)	(C)	4.3
Net Income	$ 8.8	$ (1.52)		$ 7.3

(A) Assumes 50/50 issuance of 10-year and 30-year notes (i.e. $25 mm 10-year and $25 mm 30-year)

(B) Reflects interest savings at 1.8% for repayment of short-term debt and interest expense at 6.5% from proposed financing

(C) Utilizes statutory tax rate of 39.61%

NORTHERN UTILITIES, INC.
CAPITAL STRUCTURE AS OF DECEMBER 31, 2013
Proformed for the Issuance and Sale of $50,000,000 Senior Unsecured Notes
($ In Millions)

	Actual 12/31/13	Adjustments 12/31/13	Pro Forma 12/31/13
Senior Unsecured Notes	$105.0	$50.0	$155.0
Common Equity	119.4	0.0	119.4
Long-Term Capitalization	**$224.4**	**$50.0**	**$274.4**
Short-Term Debt	43.0	(43.0)	0.0
Total Capitalization	**$267.4**	**$7.0**	**$274.4**
Total Debt / Total Capitalization	**55.3%**		**56.5%**

NORTHERN UTILITIES, INC.
Weighted Average Cost of Debt
Proformed for the Issuance and Sale of $50,000,000 Senior Unsecured Notes

(1) Description of Debt	(2) Interest Rate	(3) Maturity Date	(4) Term	(5) Date Issued	(6) Face Value	(7) Outstanding Amount	(8) Issuance Costs	(9) Net Proceeds Ratio [(6)-(8)/(6)]	(10) Unamortized Issuance Costs	(11) Net Proceeds Outstanding (7)-(10)	(12) Annual Issuance Cost	(13) Annual Interest Cost (2)*(7)	(14) Total Annual Cost (12)+(13)	(15) Cost Rate Based on Net Proceeds (14)/[(7)-(10)]
Existing Debt														
Long Term Debt														
Sr. Notes	6.95%	12/3/2018	10 Yrs	12/3/2008	$ 30,000,000	$ 30,000,000	$ 266,834	99.11%	$ 131,309	$ 29,868,691	$ 26,707	$ 2,085,000	$ 2,111,707	7.07%
Sr. Notes	7.72%	12/3/2038	30 Yrs	12/3/2008	50,000,000	50,000,000	435,899	99.13%	362,138	49,637,862	14,534	3,860,000	3,874,534	7.81%
Sr. Notes	5.29%	3/2/2020	10 Yrs	3/2/2010	25,000,000	25,000,000	368,866	98.52%	226,760	24,773,240	36,772	1,322,500	1,359,272	5.49%
Total Long Term Debt					$ 105,000,000	$ 105,000,000	$ 1,071,599		$ 720,207	$ 104,279,793	$ 78,013	$ 7,267,500	$ 7,345,513	7.04%
Pro Forma Debt														
Long Term Debt														
Sr. Notes	6.95%	12/3/2018	10 Yrs	12/3/2008	$ 30,000,000	$ 30,000,000	$ 266,834	99.11%	$ 131,309	$ 29,868,691	$ 26,707	$ 2,085,000	$ 2,111,707	7.07%
Sr. Notes	7.72%	12/3/2038	30 Yrs	12/3/2008	50,000,000	50,000,000	435,899	99.13%	362,138	49,637,862	14,534	3,860,000	3,874,534	7.81%
Sr. Notes	5.29%	3/2/2020	10 Yrs	3/2/2010	25,000,000	25,000,000	368,866	98.52%	226,760	24,773,240	36,772	1,322,500	1,359,272	5.49%
Sr. Notes*	6.50%				50,000,000	50,000,000	505,000	98.99%	505,000	49,495,000	33,667	3,250,000	3,283,667	6.63%
Total Long Term Debt					$ 155,000,000	$ 155,000,000	$ 1,576,599		$ 1,225,207	$ 153,774,793	$ 111,680	$ 10,517,500	$ 10,629,180	6.91%

Weighted Average Cost of Capital

	Actual					Pro Forma			
	Amount	Percent of Total	Cost Rate	Weighted Cost Rate	Adjustment Amount	Amount	Percent of Total	Cost Rate	Weighted Cost Rate
Common Equity	$ 119,443,044	45%	9.50%	4.24%	$ -	$ 119,443,044	44%	9.50%	4.13%
Long Term Debt	105,000,000	39%	7.04%	2.76%	50,000,000	155,000,000	56%	6.91%	3.90%
Short Term Debt	42,953,112	16%	1.59%	0.26%	(42,953,112)	-	0%	1.59%	0.00%
Total	$ 267,396,156			7.26%	$ 7,046,888	$ 274,443,044			8.04%

* Assumes 50/50 issuance of 10-year and 30-year notes (i.e. $25 mm 10-year and $25 mm 30-year

FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

NORTHERN UTILITIES, INC.
December 31, 2013, 2012 and 2011

NORTHERN UTILITIES, INC.

CERTIFICATION TO NOTEHOLDERS

I hereby certify that the accompanying Balance Sheets as of December 31, 2013 and December 31, 2012, Statements of Earnings for the years ended December 31, 2013, 2012 and 2011, Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011 and Statements of Changes in Shareholder's Equity for the years ended December 31, 2013, 2012 and 2011 were, to the best of my knowledge and belief, properly prepared and are correct.

I additionally certify that the accompanying calculation worksheet, pursuant to Sections 10.1 and 10.5 of the Note Purchase Agreement dated December 3, 2008, was, to the best of my knowledge and belief, properly prepared and is correct.

I further certify that I have reviewed the provisions of the Note Purchase Agreement dated December 3, 2008, and to the best of my knowledge and belief the Company was, and remains in compliance with the provisions of this Agreement and no Default or Event of Default exists or occurred during the period of the financial statements ending December 31, 2013 and up to the date of this certification.

Mark H. Collin,
Treasurer

March 28, 2014

Northern Utilities, Inc.

(a) Ratio of Funded Indebtedness to Total Capitalization

The information below is being provided in accordance with Section 10.1 (a) "Calculation Worksheets" of the Note Purchase Agreements for Northern Utilities, Inc.'s 6.95% Senior Notes, due December 3, 2018, 7.72% Senior Notes, due December 3, 2038 and 5.29% Senior Notes, due March 2, 2020.

	(Millions) As of December 31, 2013	
Funded Indebtedness [1]	$	105.0
Total Capitalization	$	224.4
Funded Indebtedness / Total Capitalization		46.8%

[1] **Funded Indebtedness is Total Capitalization less Common Stock Equity as of the balance sheet date.**

Northern Utilities, Inc.

(a) Restrictions on Dividends

The information below is being provided in accordance with Section 10.5 (a) "Calculation Worksheets" of the Note Purchase Agreements for Northern Utilities, Inc.'s 6.95% Senior Notes, due December 3, 2018, 7.72% Senior Notes, due December 3, 2038 and 5.29% Senior Notes, due March 2, 2020.

	(Millions) As of December 31, 2013	
Stated Amount	$	9.0
Add: Equity Contributions - 2010 - 2012		47.5
Add: Net Income - 2008 - 2012		14.8
Add: Net Income - 2013		8.8
Subtotal	**$**	**80.1**
Less: Dividends Declared / Paid - 2008 - 2012		13.7
Less: Dividends Declared / Paid - 2013		3.7
Available for Dividends	**$**	**62.7**

McGladrey

Report of Independent Registered Public Accounting Firm

To the Shareholder of
Northern Utilities, Inc.

We have audited the accompanying balance sheets of Northern Utilities, Inc., a wholly-owned subsidiary of Unitil Corporation, as of December 31, 2013 and 2012, and the related statements of earnings, shareholder's equity, and cash flows for each of the years in the three-year period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Utilities, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

McGladrey LLP

Boston, Massachusetts
March 28, 2014

NORTHERN UTILITIES, INC.
STATEMENTS OF EARNINGS
($ in Millions)

	Year Ended December 31,		
	2013	2012	2011
Operating Revenues	**$ 137.8**	$ 127.6	$ 126.7
Operating Expenses:			
Cost of Gas Sales	**76.9**	73.9	84.0
Operation and Maintenance	**22.6**	21.6	20.1
Depreciation and Amortization	**11.5**	10.2	8.0
Taxes Other Than Income Taxes	**4.9**	4.8	4.3
Total Operating Expenses	**115.9**	110.5	116.4
Operating Income	**21.9**	17.1	10.3
Interest Expense	**8.0**	8.3	8.2
Other Income	**0.2**	0.7	0.4
Income Before Income Taxes	**14.1**	9.5	2.5
Income Taxes	**5.3**	3.8	1.0
Net Income	**$ 8.8**	$ 5.7	$ 1.5

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

NORTHERN UTILITIES, INC.
BALANCE SHEETS
($ in Millions)

	December 31, 2013	December 31, 2012
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$ 0.5	$ 2.0
Accounts Receivable – (Net of Allowance for Doubtful Accounts of $0.1 and $0.6)	20.3	18.4
Accrued Revenue	15.7	21.4
Due from Affiliates	0.7	---
Exchange Gas Receivable	9.8	8.7
Gas Inventory	0.9	0.7
Prepayments and Other	4.6	3.5
Total Current Assets	52.5	54.7
Utility Plant:		
Gas	334.9	296.1
Construction Work in Progress	4.6	7.5
Utility Plant	339.5	303.6
Less: Accumulated Depreciation	70.7	66.8
Net Utility Plant	268.8	236.8
Other Noncurrent Assets:		
Regulatory Assets	12.6	21.2
Deferred Income Taxes	---	6.5
Other Assets	8.2	9.5
Total Other Noncurrent Assets	20.8	37.2
TOTAL ASSETS	$ 342.1	$ 328.7

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

NORTHERN UTILITIES, INC.
BALANCE SHEETS
($ in Millions, except par value and shares data)

	December 31, 2013	December 31, 2012
LIABILITIES AND CAPITALIZATION:		
Current Liabilities:		
Accounts Payable	$ **15.9**	$ 13.2
Short-Term Debt	**43.0**	32.8
Due to Affiliates	**---**	1.2
Energy Supply Contract Obligations	**9.8**	8.7
Deferred Income Taxes	**2.9**	4.6
Regulatory Liabilities	**0.9**	0.3
Other Current Liabilities	**3.8**	4.3
Total Current Liabilities	**76.3**	65.1
Noncurrent Liabilities:		
Deferred Income Taxes	**3.5**	---
Cost of Removal Obligations	**24.9**	23.9
Retirement Benefit Obligations	**10.6**	17.6
Environmental Obligations	**1.8**	1.8
Other Noncurrent Liabilities	**0.6**	1.0
Total Noncurrent Liabilities	**41.4**	44.3
Capitalization:		
Long-term Debt	**105.0**	105.0
Common Stock Equity:		
Common Stock, $10 Par Value		
Authorized - 200 shares		
Issued and Outstanding - 100 shares	**113.2**	113.2
Retained Earnings	**6.2**	1.1
Total Common Stock Equity	**119.4**	114.3
Total Capitalization	**224.4**	219.3
TOTAL LIABILITIES AND CAPITALIZATION	$ **342.1**	$ 328.7

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

NORTHERN UTILITIES, INC.
STATEMENTS OF CASH FLOWS
($ in Millions)

	Year Ended December 31, 2013	2012	2011
Operating Activities:			
Net Income	$ **8.8**	$ 5.7	$ 1.5
Adjustments to Reconcile Net Income to Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	**11.5**	10.2	8.0
Deferred Tax Provision	**5.3**	3.8	0.6
Changes in Working Capital Items:			
Accounts Receivable	**(1.9)**	(1.3)	(2.8)
Accrued Revenue	**5.7**	1.6	(1.7)
Exchange Gas Receivable	**(1.1)**	3.7	(4.1)
Due to/from Affiliates	**(1.9)**	(1.1)	(0.5)
Accounts Payable	**2.7**	0.9	(0.8)
Other Changes in Working Capital Items	**(1.2)**	(0.9)	(0.8)
Deferred Regulatory and Other Charges	**4.0**	(0.5)	0.9
Other, Net	**(0.3)**	(2.0)	(3.4)
Cash Provided by (Used in) Operating Activities	**31.6**	20.1	(3.1)
Investing Activities:			
Property, Plant, and Equipment Additions	**(40.7)**	(30.9)	(24.0)
Cash Used in Investing Activities	**(40.7)**	(30.9)	(24.0)
Financing Activities:			
Proceeds from (Repayment of) Short-Term Debt, net	**10.2**	(22.1)	25.8
Net Increase (Decrease) in Exchange Gas Financing	**1.1**	(3.7)	4.6
Dividends Paid	**(3.7)**	(4.2)	(1.9)
Equity Contribution	**---**	40.0	---
Cash Provided by Financing Activities	**7.6**	10.0	28.5
Net Increase (Decrease) in Cash and Cash Equivalents	**(1.5)**	(0.8)	1.4
Cash and Cash Equivalents at Beginning of Year	**2.0**	2.8	1.4
Cash and Cash Equivalents at End of Year	$ **0.5**	$ 2.0	$ 2.8
Supplemental Cash Flow Information:			
Interest Paid	$ **7.7**	$ 8.1	$ 7.8
Income Taxes (Refunded) Paid	$ **(0.1)**	$ 0.8	$ 2.0
Non-cash Investing Activity:			
Capital Expenditures Included in Accounts Payable	$ **0.3**	$ 0.7	$ 1.1

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

NORTHERN UTILITIES, INC.
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
($ in Millions)

	Common Equity	Retained Earnings (Accumulated Deficit)	Total
Balance at January 1, 2011	$ 73.2	$ (0.7)	**$ 72.5**
Net Income		1.5	**1.5**
Dividends Declared		(1.2)	**(1.2)**
Balance at December 31, 2011	$ 73.2	$ (0.4)	**$ 72.8**
Net Income		5.7	**5.7**
Dividends Declared		(4.2)	**(4.2)**
Equity Contribution	40.0		**40.0**
Balance at December 31, 2012	$ 113.2	$ 1.1	**$ 114.3**
Net Income		8.8	**8.8**
Dividends Declared		(3.7)	**(3.7)**
Balance at December 31, 2013	$ 113.2	$ 6.2	**$ 119.4**

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

NORTHERN UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013, 2012 and 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Northern Utilities, Inc. (Northern Utilities or Company), a wholly-owned subsidiary of Unitil Corporation (Unitil), provides natural gas service in southeastern New Hampshire and portions of southern and central Maine, including the city of Portland and the Lewiston-Auburn area and is subject to regulation by the New Hampshire Public Utilities Commission (NHPUC) and the Maine Public Utilities Commission (MPUC). Northern Utilities' accounting policies conform with Generally Accepted Accounting Principles in the United States of America (U.S. GAAP), as applied in the case of regulated public utilities, and are in accordance with the accounting requirements of the NHPUC, MPUC and the Federal Energy Regulatory Commission (FERC). A description of Northern Utilities' significant accounting policies follows.

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

Transactions among Northern Utilities and other affiliated companies include professional and management services rendered by Unitil Service Corp. of approximately $15.4 million, $14.0 million and $13.2 million in the years ended December 31, 2013, 2012 and 2011, respectively. The Company's transactions with affiliated companies are subject to review by the NHPUC, MPUC, the Securities and Exchange Commission (SEC) and the FERC.

Approximately 5%, 5% and 4% of the Company's natural gas purchases for the years ended December 31, 2013, 2012 and 2011, respectively, were from Granite State.

In 2012 Northern Utilities received a capital contribution of $40.0 million from Unitil.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and requires disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value – The Financial Accounting Standards Board (FASB) Codification defines fair value, and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the FASB Codification are described below:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

NORTHERN UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013, 2012 and 2011

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

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

Utility Revenue Recognition - Regulated utility revenues are based on rates and charges approved by federal and state regulatory commissions. Revenues related to the sale of natural gas service are recorded when service is rendered or energy is delivered to customers. The determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on estimated customer usage by class and applicable customer rates.

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

Operating Revenues ($ millions)

				Change			
				2013 vs. 2012		2012 vs. 2011	
	2013	2012	2011	$	% [1]	$	% [1]
Operating Revenue	**$ 137.8**	$ 127.6	$ 126.7	$ 10.2	8.0%	$ 0.9	0.7%
Cost of Gas Sales	**$ 76.9**	$ 73.9	$ 84.0	$ 3.0	2.4%	$ (10.1)	(8.0%)
Sales Margin	**$ 60.9**	$ 53.7	$ 42.7	$ 7.2	5.6%	$ 11.0	8.7%

(1) Represents change as a percent of Operating Revenue.

The Company analyzes operating results using Sales Margin. Sales Margin is calculated as Operating Revenues less Cost of Gas Sales. The Company believes Sales Margin is a better measure to analyze profitability than Operating Revenues because the approved cost of sales are tracked costs that are passed through directly to the customer resulting in an equal and offsetting amount reflected in Operating Revenues.

Depreciation - Depreciation expense is calculated on a group straight-line basis based on the useful lives of assets, and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful

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lives of the Company's fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company's financial statements. Provisions for depreciation were equivalent to an annual composite rate of 3.12%, 3.06% and 2.79% in 2013, 2012 and 2011, respectively, based on the average depreciable property balances at the beginning and end of the year. Depreciation expense for Northern Utilities was $10.5 million, $9.4 million and $7.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Sales Taxes – The Company bills its customers sales tax in Maine. This tax is remitted to the Maine Revenue Service and is excluded from revenues on the Company's Statements of Earnings.

Income Taxes – The Company is subject to Federal and State income taxes as well as various other business taxes. This process involves estimating the Company's current tax liabilities as well as assessing temporary and permanent differences resulting from the timing of the deductions of expenses and recognition of taxable income for tax and book accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Company's Balance Sheets. The Company accounts for income tax assets, liabilities and expenses in accordance with the FASB Codification guidance on Income Taxes. The Company classifies penalty and interest expense related to income tax liabilities as income tax expense and interest expense, respectively, in the Statements of Earnings.

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

Cash and Cash Equivalents – Cash and Cash Equivalents includes all cash and cash equivalents to which the Company has legal title. Cash equivalents include short-term investments with original maturities of three months or less and interest bearing deposits. Financial instruments that subject the Company to credit risk concentrations consist of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are held at financial institutions and at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash. The Company has cash deposits to satisfy requirements for its operational balancing agreement. There was $50 thousand deposited for this purpose on December 31, 2013 and 2012. The Company also has cash margin deposits to satisfy requirements for its natural gas hedging program. On December 31, 2013 and 2012, there was $0 and $1.2 million, respectively, deposited for this purpose.

Allowance for Uncollectible Accounts - The Company recognizes a Provision for Doubtful Accounts each month. The amount of the monthly Provision is based upon the Company's experience in collecting natural gas utility service accounts receivable in prior periods. Account write-offs and recoveries are processed monthly. At the end of each month, an analysis of the delinquent receivables is performed and the adequacy of the Allowance for Doubtful Accounts is reviewed. The analysis takes into account the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company is authorized by regulators to recover a portion of the costs of

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its energy commodity portion of bad debts through rate mechanisms. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis, including expected fuel assistance payments from governmental authorities and the level of customers enrolling in payment plans with the Company. It has been the Company's experience that the assumptions it has used in evaluating the adequacy of the Allowance for Doubtful Accounts have proven to be reasonably accurate.

Accrued Revenue - Accrued Revenue includes the current portion of Regulatory Assets (see "Regulatory Accounting" below and unbilled revenues (see Utility Revenue Recognition above.) The following table shows the components of Accrued Revenue as of December 31, 2013 and 2012.

	December 31,	
Accrued Revenue ($ millions)	**2013**	2012
Regulatory Assets – Current	**$ 8.7**	$ 15.4
Unbilled Revenues	**7.0**	6.0
Total Accrued Revenue	**$ 15.7**	$ 21.4

Exchange Gas Receivable – The Company has a gas exchange and storage agreement whereby natural gas purchases during the months of April through October are delivered to a third party. The third party delivers natural gas back to the Company during the months of November through March. The exchange and storage gas volumes are recorded at weighted average cost. Exchange Gas Receivable was $9.8 million and $8.7 million at December 31, 2013 and 2012, respectively. Although the asset management agreement associated with the exchange gas receivable may qualify as an embedded derivative because its terms contain notional amounts, the Company does not classify the agreement as a derivative because it meets the criteria for exception as a contract for normal purchases and normal sales, as such instruments are defined per the FASB Codification.

Gas Inventory – The Company uses the weighted average cost methodology to value natural gas inventory. Natural gas inventory was $0.9 million and $0.7 million at December 31, 2013 and 2012, respectively.

	December 31,	
Gas Inventory ($ millions)	**2013**	2012
Natural Gas	**$ 0.8**	$ 0.6
Liquefied Natural Gas	**0.1**	0.1
Total Gas Inventory	**$ 0.9**	$ 0.7

Utility Plant – The cost of additions to Utility Plant and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The average annualized interest rate applied to AFUDC was 1.92%, 2.04% and 2.28% in 2013, 2012 and 2011, respectively. The costs of current repairs and minor replacements are charged to operating expense accounts. The original cost of utility plant retired or otherwise disposed of and the cost of removal, less salvage, are charged to the accumulated provision for depreciation. The Company includes in its mass asset depreciation rates, which are periodically reviewed as part of its ratemaking proceedings, depreciation amounts to provide for future negative salvage value. At December 31, 2013 and 2012, the Company estimates

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that the cost of removal amounts, which are recorded on the Company's Balance Sheets in Cost of Removal Obligations are $24.9 million and $23.9 million, respectively.

Goodwill and Intangible Assets – On December 1, 2008, the Company and Granite State were acquired by Unitil, (the "Acquisitions"), and the Company recognized an estimated bargain purchase adjustment, the Plant Acquisition Adjustment (PAA), as a reduction to Utility Plant, to be amortized over a ten year period. The original PAA was estimated prior to the completion of rate cases in 2010 and 2011 in which the commitments by the Company and Granite State to certain regulatory activities required to comply with the regulatory orders approving the Acquisitions were reviewed. The estimated PAA was allocated to the Company and Granite State based on the Net Utility Plant balances of each at the time of the Acquisitions, and was agreed to among the Company's regulators and other parties in stipulations to the settlement agreements reached in the process of achieving regulatory approval of the Acquisitions. During 2011, based on the completion of this compliance review and associated rate cases, the allocation of the PAA and related amortizations between the Company and Granite State were adjusted to their final amounts. As a result, the Company recognized a reduction in credits to amortization expense of $0.3 million in 2011 to adjust the cumulative amortization since the Acquisitions. For the years ended December 31, 2013 and 2012, the Company recognized credits to amortization expense totaling $2.2 million and $2.2 million, respectively. The Company's unamortized PAA balance at December 31, 2013 and 2012 was $10.9 million and $13.1 million, respectively, reflecting the final allocation, in 2011, of the bargain purchase adjustment between the Company and Granite State, and is included in Net Utility Plant on the Company's Balance Sheets. This balance will be amortized over the next 5 years..

Regulatory Accounting – Northern Utilities' principal business is the distribution of natural gas and it is regulated by the MPUC and NHPUC. Accordingly, the Company uses the Regulated Operations guidance as set forth in the FASB Codification. The Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

	December 31,	
Regulatory Assets consist of the following ($ millions)	**2013**	2012
Regulatory Tracker Mechanisms	**$ 9.5**	$ 16.7
Retirement Benefit Obligations	**3.4**	8.9
Environmental Obligations	**3.7**	4.5
Income Taxes	**2.4**	2.5
Other	**2.3**	4.0
Total Regulatory Assets	**$ 21.3**	$ 36.6
Less: Current Portion of Regulatory Assets (1)	**8.7**	15.4
Regulatory Assets - noncurrent	**$ 12.6**	$ 21.2

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

	December 31,	
Regulatory Liabilities consist of the following ($ millions)	**2013**	**2012**
Regulatory Tracker Mechanisms	**$ 0.9**	$ 0.3
Total Regulatory Liabilities	**$ 0.9**	$ 0.3

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Generally, the Company receives a return on investment on its Regulatory Assets for which a cash outflow has been made. The Company expects that it will recover all its investments in long-lived assets through its utility rates, including those amounts recognized as Regulatory Assets.

If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of the FASB Codification topic on Regulated Operations. If unable to continue to apply the FASB Codification provisions for Regulated Operations, the Company would be required to apply the provisions for the Discontinuation of Rate-Regulated Accounting included in the FASB Codification. In the Company's opinion, its regulated operations will be subject to the FASB Codification provisions for Regulated Operations for the foreseeable future.

Prior to 2013, certain regulatory tracker mechanisms which are currently recorded in Regulatory Liabilities had been recorded in Accrued Revenue and Other Current Liabilities on the Balance Sheets. Amounts previously reported have been reclassified to conform to current year presentation.

Derivatives – The Company enters into energy supply contracts to serve its customers. The Company follows a procedure for determining whether each contract qualifies as a derivative instrument under the guidance provided by the FASB Codification on Derivatives and Hedging. For each contract, the Company reviews and documents the key terms of the contract. Based on those terms and any additional relevant components of the contract, the Company determines and documents whether the contract qualifies as a derivative instrument as defined in the FASB Codification. The Company has determined that none of its energy supply contracts, other than the regulatory approved hedging program, described below, qualifies as a derivative instrument under the guidance set forth in the FASB Codification.

The Company has a regulatory approved hedging program designed to fix a portion of its gas supply costs for the coming year of service. In order to fix these costs, the Company purchases natural gas futures and options contracts on the New York Mercantile Exchange (NYMEX) that correspond to the associated delivery month. Any gains or losses resulting from the change in the fair value of these derivatives are passed through to ratepayers directly through a regulatory commission approved recovery mechanism. The fair value of these derivatives is determined using Level 2 inputs (valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly), specifically based on the NYMEX closing prices for outstanding contracts as of the balance sheet date. As a result of the ratemaking process, the Company records gains and losses resulting from the change in fair value of the derivatives as regulatory liabilities or assets, then reclassifies these gains or losses into Cost of Gas Sales when the gains and losses are passed through to customers in accordance with rate reconciling mechanisms.

As of December 31, 2013 and December 31, 2012, the Company had 1.8 billion and 1.9 billion cubic feet (BCF), respectively, outstanding in natural gas purchase contracts under its hedging program.

The tables below show derivatives, which are part of the regulatory approved hedging program, that are not designated as hedging instruments under FASB ASC 815-20. The tables below include disclosure of the derivative assets and liabilities and the recognition of the charges from their corresponding regulatory liabilities and assets, respectively into Cost of Gas Sales. The current and noncurrent portions of these regulatory assets are recorded as Accrued Revenue and Regulatory

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Assets, respectively, on the Company's Balance Sheets. The current and noncurrent portions of these regulatory liabilities are recorded as Other Current Liabilities and Other Noncurrent Liabilities, respectively on the Company's Balance Sheets.

Fair Value Amount of Derivative Assets / Liabilities ($ millions) Offset in Regulatory Liabilities / Assets, as of:

Description	Balance Sheet Location	Fair Value December 31, 2013	Fair Value December 31, 2012
Derivative Assets			
Natural Gas Futures Contracts	Prepayments and Other	$ 0.1	$ ---
Natural Gas Futures Contracts	Other Assets	0.1	---
Total Derivative Assets		$ 0.2	$ ---
Derivative Liabilities			
Natural Gas Futures Contracts	Other Current Liabilities	$ ---	$ 0.7
Natural Gas Futures Contracts	Other Noncurrent Liabilities	---	---
Total Derivative Liabilities		$ ---	$ 0.7

	Twelve Months Ended December 31, 2013	Twelve Months Ended December 31, 2012
Amount of Loss Recognized in Regulatory Assets for Derivatives:		
Natural Gas Futures Contracts	$ 0.3	$ 1.0
Amount of Loss Reclassified into Consolidated Statements of Earnings[(1)]:		
Cost of Gas Sales	$ 1.2	$ 2.6

[(1)] These amounts are offset in the Statements of Earnings with Accrued Revenue and therefore there is no effect on earnings.

Energy Supply Obligations— The Company enters into asset management agreements under which it releases certain natural gas pipeline and storage assets, resells the natural gas storage inventory to an asset manager and subsequently repurchases the inventory over the course of the natural gas heating season at the same price at which it sold the natural gas inventory to the asset manager. The gas volumes related to these agreements are recorded in Exchange Gas Receivable on the Company's Balance Sheets while the corresponding obligations are recorded in Energy Supply Obligations.

Retirement Benefit Obligations – The Company co-sponsors the Unitil Corporation Retirement Plan (Pension Plan), which is a defined benefit pension plan covering substantially all of its employees. The

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Company also co-sponsors an unfunded retirement plan, the Unitil Corporation Supplemental Executive Retirement Plan (SERP), covering certain executives of the Company and an employee 401(k) savings plan. Additionally, the Company co-sponsors the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan), primarily to provide health care and life insurance benefits to retired employees.

The Company records on its balance sheets a liability for the underfunded status of its retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in gas rates. See Note 7.

Commitments and Contingencies - The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with the FASB Codification as it applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2013, the Company is not aware of any material commitments or contingencies other than those disclosed in the Commitments and Contingencies footnote to the Company's financial statements below. See Note 5.

Environmental Matters - The Company's past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. The Company has or will recover substantially all of the costs of the environmental remediation work performed to date from customers or from its insurance carriers. The Company believes it is in compliance with all applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2013, there are no material losses that would require additional liability reserves to be recorded other than those disclosed in Note 5, Commitments and Contingencies below. Changes in future environmental compliance regulations or in future cost estimates of environmental remediation costs could have a material effect on the Company's financial position if those amounts are not recoverable in regulatory rate mechanisms.

Off-Balance Sheet Arrangements – As of December 31, 2013, the Company does not have any significant arrangements that would be classified as Off-Balance Sheet Arrangements. In the ordinary course of business, the Company does contract for certain office and other equipment and motor vehicles under operating leases and, in the Company's opinion, the amount of these transactions is not material.

Subsequent Events – The Company has evaluated all events or transactions through March 28, 2014, the date the financial statements were available to be issued. During this period, the Company did not have any material subsequent events that impacted its financial statements.

Reclassifications – Certain amounts previously reported have been reclassified to improve the financial statements' presentation and to conform to current year presentation. The Company has reclassified certain regulatory tracker mechanisms from Accrued Revenue and Other Current Liabilities to Regulatory Liabilities, on the Company's Balance Sheets as discussed above in Regulatory Accounting. Also, energy efficiency program expenses, which were previously presented as Conservation & Load Management on the Company's Statements of Earnings are now included in Cost of Gas Sales.

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NOTE 2: DEBT AND FINANCING ARRANGEMENTS

Long-Term Debt and Interest Expense

All the Company's long-term debt is issued under unsecured promissory notes with negative pledge provisions, which, among other things, limit the incursion of additional long-term debt. Accordingly, in order for the Company to issue new long-term debt, the covenants of the existing long-term agreements must be satisfied, including that the Company have total funded indebtedness less than 65% of total capitalization. The Company's unsecured promissory note agreements require that if it defaults on any long-term debt agreement, it would constitute a default under all its long-term debt agreements. The default provisions are not triggered by the actions or defaults of other companies owned by Unitil. The Company's long-term debt agreements also contain covenants restricting its ability to incur liens and to enter into sale and leaseback transactions, and restricting its ability to consolidate with, to merge with or into or to sell or otherwise dispose of all or substantially all of its assets.

Details of long-term debt at December 31, 2013 and 2012 are shown below:

Long-term Debt ($ millions)	December 31, 2013		December 31, 2012	
Senior Notes:				
6.95% Senior Notes, Series A, Due December 3, 2018	**$**	**30.0**	$	30.0
5.29% Senior Notes, Due March 2, 2020		**25.0**		25.0
7.72% Senior Notes, Series B, Due December 3, 2038		**50.0**		50.0
Total	**$**	**105.0**	$	105.0

There are no Note repayment requirements in the years ended December 31, 2014 and December 31, 2015. The aggregate amount of Note repayment requirements is $10.0 million in each of 2016 and 2017 and $18.4 million in 2018.

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the Company's long-term debt at December 31, 2013 is estimated to be approximately $122.1 million, before considering any costs, including prepayment costs, to market the Company's debt. Currently, management believes that there is no active market in the Company's debt securities, which have all been sold through private placements.

Credit Arrangements

Northern Utilities' short-term borrowings are presently provided under a cash pooling and loan agreement between Unitil and its subsidiaries. Under the existing pooling and loan agreement, Unitil Corporation borrows, as required, from its banks on behalf of its subsidiaries. At December 31, 2013, Unitil had unsecured committed bank lines of credit for short-term debt aggregating $120 million. The weighted average interest rates on all short-term borrowings were 1.8%, 2.0% and 2.2% during 2013, 2012 and 2011, respectively. The Company had short-term debt outstanding through bank borrowings of approximately $43.0 million and $32.8 million at December 31, 2013 and 2012, respectively.

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Northern Utilities enters into asset management agreements under which Northern Utilities releases certain natural gas pipeline and storage assets, resells the natural gas storage inventory to an asset manager and subsequently repurchases the inventory over the course of the natural gas heating season at the same price at which it sold the natural gas inventory to the asset manager. There was $12.5 million and $10.7 million of natural gas storage inventory at December 31, 2013 and 2012, respectively, related to these asset management agreements. The amount of natural gas inventory released in December 2013, which was payable in January 2014, is $2.7 million and recorded in Accounts Payable at December 31, 2013. The amount of natural gas inventory released in December 2012, which was payable in January 2013, is $2.1 million and recorded in Accounts Payable at December 31, 2012.

Leases

The Company leases some of its vehicles under operating lease arrangements. The following is a schedule of future operating lease payment obligations as of December 31, 2013:

Year Ending December 31, ($000's)		
2014	$	**440**
2015		**397**
2016		**323**
2017		**224**
2018		**113**
Total Future Operating Lease Payments	$	**1,497**

Total rental expense charged to operations for the years ended December 31, 2013, 2012 and 2011 amounted to $452,000, $464,000 and $407,000, respectively.

NOTE 3: RESTRICTION ON DIVIDENDS

Under the terms of the Note Purchase Agreements relating to Northern Utilities' Senior Notes, $62.7 million was available for dividends and similar distributions at December 31, 2013. Common dividends declared by Northern Utilities are paid exclusively to Unitil Corporation.

NOTE 4: ENERGY SUPPLY

Natural Gas Supply:

Northern Utilities' Commercial and Industrial (C&I) natural gas customers have the opportunity to purchase their natural gas supply from third-party gas supply vendors, and third-party supply is prevalent among Northern Utilities' larger C&I customers. Most small C&I customers, as well as all residential customers, purchase their gas supply from Northern Utilities under regulated rates and tariffs. The approved costs associated with the acquisition of such wholesale natural gas supplies for customers who do not contract with third-party suppliers are recovered on a pass-through basis through periodically-adjusted rates and are included in Cost of Gas Sales in the Statements of Earnings.

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Regulated Natural Gas Supply:

The Company purchases a majority of its natural gas from U.S. domestic and Canadian suppliers under contracts of one year or less, and on occasion from producers and marketers on the spot market. Northern Utilities arranges for gas delivery to its system through its own long-term contracts with various interstate pipeline and storage facilities, through peaking supply contracts delivered to its system, or in the case of LNG, to truck supplies to each storage facility within Northern Utilities' service territory.

Northern Utilities has available under firm contract 100,000 million British Thermal Units per day of year-round and seasonal transportation capacity to its distribution facilities, and 3.4 billion cubic feet of underground storage. As a supplement to pipeline natural gas, Northern Utilities owns a liquefied natural gas storage and vaporization facility. This plant is used principally during peak load periods to augment the supply of pipeline natural gas.

NOTE 5: COMMITMENTS AND CONTINGENCIES

Regulatory Matters

Overview - Northern Utilities is a New Hampshire corporation and a public utility under both New Hampshire and Maine law. Northern Utilities provides natural gas distribution services to approximately 60,300 customers in 44 New Hampshire and southern Maine communities at rates established under traditional cost of service regulation. Under this regulatory structure, the Company recovers the cost of providing distribution service to its customers based on a representative test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in New Hampshire and Maine, the Company's business customers have the opportunity to purchase their natural gas supplies from third-party suppliers. Most small and medium-sized customers, however, continue to purchase such supplies through the Company as the provider of basic service energy supply. The Company purchases natural gas for basic service from unaffiliated wholesale suppliers and recovers the actual costs of these supplies, without profit or markup, through reconciling, pass-through rate mechanisms that are periodically adjusted.

Base Rates – Maine - On December 27, 2013, the MPUC approved a settlement agreement providing for a $3.8 million permanent increase in annual revenue for Northern Utilities' Maine operations, effective January 1, 2014. The settlement agreement also provided that the Company shall be allowed to implement a Targeted Infrastructure Replacement Adjustment (TIRA) to provide for annual adjustments to distribution base rates to recover costs associated with the Company's investments in targeted operational and safety-related infrastructure replacement and upgrade projects. The TIRA will have an initial term of four years, and covers expenditures in each of the Calendar Years 2013, 2014, 2015, and 2016. The settlement agreement also provides for Earning Sharing where Northern Utilities would be allowed to retain all earnings up to a return of 10%. Earnings in excess of 10% and up to and including 11% will be shared equally, between ratepayers and the Company. Earnings in excess of 11% shall be returned to ratepayers. The settlement agreement continues and revises the service quality plan (SQP) that Northern Utilities has been operating under since 2004 and established in Docket No. 2002-140. The revised SQP consists of seven metrics with an appurtenant administrative penalty for failure to meet any of the seven metrics. The settlement agreement further provides that Northern Utilities will be subject to a maximum annual penalty of $500,000 if it fails to meet any of the baseline performance targets under the revised SQP.

Base Rates - New Hampshire - In April 2013, Northern Utilities' New Hampshire operations filed a rate case with the NHPUC requesting approval to increase its natural gas distribution base rates by

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$5.2 million in gas distribution base revenue or approximately 9.4 percent over test year operating revenue. The filing included a proposed multi-year rate plan that included cost tracking mechanisms to recover future capital costs associated with Northern Utilities' infrastructure replacements and safety and reliability improvements to the natural gas distribution system. Northern Utilities has been authorized to implement temporary rates to collect a $2.5 million increase (annualized) in gas distribution revenue, effective July 1, 2013. The Company, along with the Staff of the NHPUC and the New Hampshire Office of Consumer Advocate, has filed a settlement agreement with the NHPUC and expects a final rate order from the NHPUC in the first half of 2014. Once permanent rates are approved by the NHPUC, they will be reconciled to the date temporary rates were established, July 1, 2013.

Environmental Matters

The Company's past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. The Company believes it is in material compliance with applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2013, there were no material losses reasonably likely to be incurred in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Manufactured Gas Plant (MGP) Sites— Northern Utilities has an extensive program to identify, investigate and remediate former manufactured gas plant (MGP) sites that were operated from the mid-1800s through the mid-1900s. In New Hampshire, MGP sites were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. This program has also documented the presence of MGP sites in Lewiston and Portland, Maine and a former MGP disposal site in Scarborough, Maine. Northern Utilities has worked with the environmental regulatory agencies in both New Hampshire and Maine to address environmental concerns with these sites.

Northern Utilities or others have substantially completed remediation of the Exeter, Rochester, Somersworth, Portsmouth, Lewiston and Scarborough sites. The site in Portland has been investigated and remedial activities are ongoing with the most recent phase completed in December 2013. Although Northern Utilities recently finalized a long-term lease on the Portland property, the State of Maine has announced its intention to acquire the site in the short-term for the expansion of the adjacent marine terminal. Future operation, maintenance and remedial costs have been accrued, although there will be uncertainty regarding future costs pending either State acquisition or until all remedial activities are completed.

The NHPUC and MPUC have approved the recovery of MGP environmental costs. For Northern Utilities' New Hampshire division, the NHPUC approved the recovery of MGP environmental costs over a seven-year amortization period. For Northern Utilities' Maine division, the MPUC authorized the recovery of environmental remediation costs over a rolling five-year amortization schedule.

Included in the Company's Balance Sheets at December 31, 2013 and 2012 are current and non-current accrued liabilities totaling $2.8 million and $2.8 million, respectively, associated with Northern Utilities environmental remediation obligations for these former MGP sites. A corresponding Regulatory Asset was recorded to reflect that the recovery of these environmental remediation cost is probable through the regulatory process.

The Company's ultimate liability for future environmental remediation costs, including MGP site costs, may vary from estimates, which may be adjusted as new information or future developments become

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available. Based on the Company's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, the Company does not believe that these environmental costs will have a material adverse effect on the Company's consolidated financial position or results of operations.

The following table shows the balances and activity in the Company's liability for Environmental Obligations for 2013 and 2012.

ENVIRONMENTAL OBLIGATIONS

($ millions)	December 31, 2013	December 31, 2012
Total Environmental Obligations - Balance at Beginning of Period	**$ 2.8**	$ 2.7
Changes in Estimates	**---**	0.1
Less: Payments / Reductions	**---**	---
Total Environmental Obligations – Balance at End of Period	**2.8**	2.8
Less: Current Portion [1]	**1.0**	1.0
Environmental Obligations – noncurrent – Balance at End of Period	**$ 1.8**	$ 1.8

[1] Reflects amounts included in Other Current Liabilities on the Company's Balance Sheets.

Litigation - The Company is also involved in other legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. In the Company's opinion, 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.

Market Risk - Although the Company is subject to commodity price risk as part of its traditional operations, the current regulatory framework within which the Company operates allows for full collection of fuel and gas costs in rates. Consequently, there is limited commodity price risk after consideration of the related rate-making.

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NOTE 6: INCOME TAXES

Provisions for Federal and State Income Taxes reflected as operating expenses in the accompanying statements of earnings for the years ended December 31, 2013, 2012 and 2011 are shown below:

	($000's)		
	2013	2012	2011
Current Federal Tax Provision			
Current Provision	$ ---	$ ---	$ ---
Total Current Federal Tax Provision	---	---	---
Deferred Federal Tax Provision (Benefit)			
Utility Plant Differences	**14,579**	4,445	8,956
Net Operating Loss Carryforwards	**(8,127)**	457	(7,293)
Regulatory Assets and Liabilities	**(2,008)**	(1,776)	(873)
Other, net	**(397)**	(248)	30
Total Deferred Federal Tax Provision	**4,047**	2,878	820
Total Federal Tax Provision	**4,047**	2,878	820
State Tax Provision (Benefit):			
Current	---	22	421
Deferred	**1,218**	903	(195)
Total State Tax Provision	**1,218**	925	226
Total Federal and State Tax Provision	**$ 5,265**	$ 3,803	$ 1,046

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

	2013	2012	2011
Statutory Federal Income Tax Rate	**34%**	34%	34%
Income Tax Effects of:			
State Income Taxes, Net	**5**	7	6
Utility Plant Differences	**(2)**	(1)	---
Other, Net	---	---	2
Effective Income Tax Rate	**37%**	40%	42%

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Temporary differences which gave rise to current deferred tax assets and liabilities in 2013 and 2012, are shown below:

Current Deferred Income Taxes ($000's)	2013	2012
Accrued Revenue, Current Portion	$ 2,649	$ 4,621
Other, net	218	(63)
Total Current Deferred Income Tax Liabilities	$ 2,867	$ 4,558

Temporary differences which gave rise to noncurrent deferred tax assets and liabilities in 2013 and 2012, are shown below:

Noncurrent Deferred Income Taxes ($000's)	2013	2012
Utility Plant Differences	$ 24,920	$ 7,700
Net Operating Loss Carryforwards	(19,555)	(10,156)
Regulatory Assets & Liabilities	1,110	1,662
Retirement Benefit Obligations	(4,143)	(6,942)
Other, net	1,194	1,267
Total Noncurrent Deferred Income Tax Liabilities	$ 3,526	$ (6,469)

The Company evaluated its tax positions at December 31, 2013 in accordance with the FASB Codification, and has concluded that no adjustment for recognition, derecognition, settlement and foreseeable future events to any unrecognized tax liabilities or assets as defined by the FASB Codification is required. The Company does not have any unrecognized tax positions for which it is reasonably possible that the total amounts recognized will significantly change within the next 12 months. The Company accounts for income taxes in accordance with the FASB Codification guidance on Income Taxes which requires an asset and liability approach for the financial accounting and reporting of income taxes. Significant judgments and estimates are required in determining the current and deferred tax assets and liabilities. The Company's deferred tax assets and liabilities reflect its best assessment of estimated future taxes to be paid. Periodically, the Company assesses the realization of its deferred tax assets and liabilities and adjusts the income tax provision, the current tax liability and deferred taxes in the period in which the facts and circumstances which gave rise to the revision become known. The Company recorded no interest on tax items for the years ended December 31, 2013, 2012 and 2011.

In total at December 31, 2013, the Company had recorded federal and state net operating loss (NOL) carryforward assets of $19.6 million to offset against taxes payable in future periods. If unused, the Company's state NOL carryforward assets will begin to expire in 2019 and the federal NOL carryforward assets will begin to expire in 2029.

The Company remains subject to examination by New Hampshire and Maine tax authorities for the tax periods ended December 31, 2010; December 31, 2011; and December 31, 2012. Income tax filings

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for the year ended December 31, 2012 have been filed with the New Hampshire Department of Revenue Administration and the Maine Revenue Service.

NOTE 7: RETIREMENT BENEFIT OBLIGATIONS

The Company co-sponsors the following retirement benefit plans to provide certain pension and postretirement benefits for its retirees and current employees as follows:

- The Unitil Corporation Retirement Plan (Pension Plan) - The Pension Plan is a defined benefit pension plan. Under the Pension Plan, retirement benefits are based upon an employee's level of compensation and length of service.
- The Unitil Retiree Health and Welfare Benefits Plan (PBOP Plan)—The PBOP Plan provides health care and life insurance benefits to retirees. The Company has established Voluntary Employee Benefit Trusts (VEBT), into which it funds contributions to the PBOP Plan.
- The Unitil Corporation Supplemental Executive Retirement Plan (SERP)—The SERP is an unfunded retirement plan, with participation limited to executives selected by the Board of Directors.

The following table includes the key assumptions used in determining the Company's benefit plan costs and obligations:

	2013	2012	2011
Used to Determine Plan costs for years ended December 31:			
Discount Rate	**4.00%**	4.60%	5.35%
Rate of Compensation Increase	**3.00%**	3.00%	3.50%
Expected Long-term Rate of Return on Plan Assets	**8.50%**	8.50%	8.50%
Health Care Cost Trend Rate Assumed for Next Year	**8.00%**	6.50%	7.00%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%	4.00%
Year that Ultimate Health Care Cost Trend Rate is reached	**2017**	2017	2017
Effect of 1% Increase in Health Care Cost Trend Rate ($000's)	**$ 373**	$ 325	$ 283
Effect of 1% Decrease in Health Care Cost Trend Rate ($000's)	**$ (286)**	$ (250)	$ (220)

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Used to Determine Benefit Obligations at December 31:	**2013**	2012	2011
Discount Rate	**4.80%**	4.00%	4.60%
Rate of Compensation Increase	**3.00%**	3.00%	3.00%
Health Care Cost Trend Rate Assumed for Next Year	**8.00%**	8.00%	6.50%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%	4.00%
Year that Ultimate Health care Cost Trend Rate is reached	**2018**	2017	2017
Effect of 1% Increase in Health Care Cost Trend Rate ($000's)	**$ 3,204**	$ 4,033	$ 2,935
Effect of 1% Decrease in Health Care Cost Trend Rate ($000's)	**$(2,519)**	$(3,128)	$(2,284)

The Discount Rate assumptions used in determining retirement plan costs and retirement plan obligations are based on an assessment of current market conditions using high quality corporate bond interest rate indices and pension yield curves. The Rate of Compensation Increase assumption used for 2013, 2012 and 2011 was 3.00%, 3.00% and 3.50%, respectively, based on the expected long-term increase in compensation costs for personnel covered by the plans.

The following table provides the components of the Company's retirement plan costs ($000's):

	Pension Plan			**PBOP Plan**			**SERP**		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Service Cost	**$ 1,214**	$ 1,022	$ 933	**$ 948**	$ 735	$ 680	**$ 27**	$ 99	$ 98
Interest Cost	**999**	918	895	**693**	608	603	**88**	72	78
Expected Return on Plan Assets	**(1,299)**	(1,069)	(927)	**(291)**	(210)	(226)	**---**	---	---
Prior Service Cost Amortization	**196**	149	149	**600**	594	593	**4**	4	4
Transition Obligation Amortization	**---**	---	---	**---**	2	2	**---**	---	---
Actuarial Loss Amortization	**556**	408	247	**292**	61	---	**66**	22	26
Sub-total	**1,666**	1,428	1,297	**2,242**	1,790	1,652	**185**	197	206
Amounts Capitalized and Deferred	**(565)**	(448)	(383)	**(833)**	(633)	(529)	---	---	---
NPBC Recognized	**$ 1,101**	$ 980	$ 914	**$ 1,409**	$ 1,157	$ 1,123	**$ 185**	$ 197	$ 206

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The estimated amortizations related to Actuarial Loss and Prior Service Cost included in the Company's retirement plan costs over the next fiscal year is $0.4 million, $0.6 million and less than $0.1 million for the Pension, PBOP and SERP plans, respectively.

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

	Pension Plan		PBOP Plan		SERP	
	2013	2012	**2013**	2012	**2013**	2012
Change in Plan Assets:						
Plan Assets at Beginning of Year	**$ 11,076**	$ 7,135	**$ 2,261**	$ 1,318	**$ ---**	$ ---
Actual Return on Plan Assets	**2,077**	2,292	**521**	332	**---**	---
Employer Contributions	**1,268**	2,412	**1,138**	882	**11**	21
Participant Contributions	**---**	---	**23**	11	**---**	---
Benefits Paid	**(830)**	(763)	**(313)**	(282)	**(11)**	(21)
Plan Assets at End of Year	**$ 13,591**	$ 11,076	**$ 3,630**	$ 2,261	**$ ---**	$ ---
Change in PBO:						
PBO at Beginning of Year	**$ 16,778**	$ 11,869	**$ 13,017**	$ 9,038	**$ 1,245**	$ 607
Service Cost	**1,214**	1,022	**948**	735	**27**	99
Interest Cost	**999**	918	**693**	608	**88**	72
Participant Contributions	**---**	---	**23**	11	**---**	---
Plan Amendments	**---**	547	**---**	28	**---**	---
Benefits Paid	**(830)**	(763)	**(313)**	(282)	**(11)**	(21)
Actuarial (Gain) or Loss	**(3,138)**	3,185	**(2,595)**	2,879	**(178)**	488
PBO at End of Year	**$ 15,023**	$ 16,778	**$ 11,773**	$ 13,017	**$ 1,171**	$ 1,245
Funded Status: Assets vs PBO	**$ (1,432)**	$ (5,702)	**$ (8,143)**	$ (10,756)	**$ (1,171)**	$ (1,245)

The Company has recorded on its balance sheets as a liability the underfunded status of its retirement benefit obligations based on the projected benefit obligation. The Company has recognized Regulatory Assets, net of tax, of $3.4 million and $8.9 million at December 31, 2013 and 2012, respectively, to recognize the future collection of these plan obligations in gas rates.

The Accumulated Benefit Obligation (ABO) is required to be disclosed for all plans where the ABO is in excess of plan assets. The difference between the PBO and the ABO is that the PBO includes projected compensation increases. The ABO for the Pension Plan was $13.5 million and $15.1 million as of December 31, 2013 and 2012, respectively. The ABO for the SERP was $1.0 million and $1.0 million as of December 31, 2013 and 2012, respectively. For the PBOP Plan, the ABO and PBO are the same.

The Company expects to continue to make contributions to its Pension Plan in 2014 and future years at minimum required and discretionary funding levels consistent with the amounts recovered in rates for these Pension Plan costs.

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

	Pension Plan			PBOP Plan			SERP		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Employer Contributions	**$ 1,268**	$ 2,412	$ 2,011	**$ 1,138**	$ 882	$ ---	**$ 11**	$ 21	$ 17
Participant Contributions	**$ ---**	$ ---	$ ---	**$ 23**	$ 11	$ 8	**$ ---**	$ ---	$ ---
Benefit Payments	**$ 830**	$ 763	$ 487	**$ 313**	$ 282	$ 261	**$ 11**	$ 21	$ 17

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

	Estimated Future Benefit Payments		
	Pension	**PBOP**	**SERP**
2014	$ 433	$ 288	$ 82
2015	549	336	81
2016	536	367	80
2017	643	440	79
2018	619	475	77
2019 - 2023	$ 5,015	$ 3,418	$ 409

The Expected Long-Term Rate of Return on Pension Plan assets assumption used by the Company is developed based on input from actuaries and investment managers. The Company's Expected Long-Term Rate of Return on Pension Plan assets is based on target investment allocation of 48% in common stock equities, 37% in fixed income securities, 10% in real estate securities and 5% in a combined equity and debt fund. The Company's Expected Long-Term Rate of Return on PBOP Plan assets is based on target investment allocation of 55% in common stock equities and 45% in fixed income securities. The actual investment allocations are shown in the tables below.

Pension Plan	**Target Allocation**	**Actual Allocation at December 31,**		
	2014	**2013**	**2012**	**2011**
Equity Funds	48%	**54%**	48%	49%
Debt Funds	37%	**32%**	47%	46%
Real Estate Fund	10%	**1%**	0%	0%
Asset Allocation Fund(1)	5%	**5%**	5%	5%
Other(2)	0%	**8%**	0%	0%
Total		**100%**	100%	100%

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

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PBOP Plan	Target Allocation	Actual Allocation at December 31,		
	2014	2013	2012	2011
Equity Funds	55%	**57%**	56%	55%
Debt Funds	45%	**43%**	44%	45%
Total		**100%**	100%	100%

The combination of these target allocations and expected returns resulted in the overall assumed long-term rate of return of 8.50% for 2013. The assumed long-term rate of return for 2014 is 8.0%. The Company evaluates the actuarial assumptions, including the expected rate of return, at least annually. The desired investment objective is a long-term rate of return on assets that is approximately 5 – 6% greater than the assumed rate of inflation as measured by the Consumer Price Index. The target rate of return for the Plans has been based upon an analysis of historical returns supplemented with an economic and structural review for each asset class.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013 and 2012. Please also see Note 1 for a discussion of the Company's fair value accounting policy.

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

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

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

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Assets measured at fair value on a recurring basis for the Pension Plan as of December 31, 2013 and 2012 are as follows ($000's):

	Fair Value Measurements at Reporting Date Using							
Description	**Balance as of December 31,**		**Quoted Prices in Active Markets for Identical Assets (Level 1)**		**Significant Other Observable Inputs (Level 2)**		**Significant Unobservable Inputs (Level 3)**	
2013								
Pension Plan Assets:								
Equity Funds	$	7,277	$	7,277	$	---	$	---
Fixed Income Funds		4,326		4,326		---		---
Asset Allocation Fund		753		753		---		---
Real Estate Fund		185		---		---		185
Cash Equivalents		1,050		1,050		---		---
Total Assets	$	13,591	$	13,406	$	---	$	185
2012								
Pension Plan Assets:								
Equity Funds	$	5,314	$	5,314	$	---	$	---
Fixed Income Funds		5,239		5,239		---		---
Asset Allocation Fund		523		523		---		---
Total Assets	$	11,076	$	11,076	$	---	$	---

The following tables set forth additional disclosures of Pension Plan investments whose fair value is estimated using NAV per share as of December 31, 2013. There were no Pension Plan investments whose fair value is estimated using NAV per share as of December 31, 2012:

	Fair Value Estimated Using NAV Per Share					
	December 31, 2013					
Description	**Fair Value**		**Unfunded Commitment**		**Redemption Frequency**	**Redemption Notice Period**
SEI Core Property Collective Investment Trust Fund [1]	$	185,000	$	---	Quarterly	65 days

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

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The table below sets forth a summary of changes in the fair value of the Pension Plan's Level 3 assets for the year ended December 31, 2013:

	Level 3 Assets SEI Core Property Collective Investment Trust Fund
Balance at December 31, 2012	$ ---
Purchases	185,000
Balance at December 31, 2013	$ 185,000
Amount of Total Gains or Losses for the Year Attributable to the Change in Unrealized Gains or Losses Relating to Assets Still Held at December 31, 2013	$ ---

Assets measured at fair value on a recurring basis for the PBOP Plan as of December 31, 2013 and 2012 are as follows ($000's):

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of December 31,**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
2013				
PBOP Plan Assets:				
Mutual Funds:				
Fixed Income Funds	$ 1,572	$ 1 ,572	$ ---	$ ---
Index Funds	1,497	1,497	---	---
Equity Funds	561	561	---	---
Total Assets	$ 3,630	$ 3,630	$ ---	$ ---
2012				
PBOP Plan Assets:				
Mutual Funds:				
Fixed Income Funds	$ 1,000	$ 1,000	$ ---	$ ---
Index Funds	914	914	---	---
Equity Funds	347	347	---	---
Total Assets	$ 2,261	$ 2,261	$ ---	$ ---

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Employee 401(k) Tax Deferred Savings Plan --- The Company co-sponsors the Unitil Corporation Tax Deferred Savings and Investment Plan (the 401(k) Plan) under Section 401(k) of the Internal Revenue Code and covering substantially all of the Company's employees. Participants may elect to defer current compensation by contributing to the plan. Employees may direct, at their sole discretion, the investment of their savings plan balances (both the employer and employee portions) into a variety of investment options, including a Company common stock fund.

The Company's share of contributions to the 401(k) Plan was $590,000, $469,000 and $395,000 for the years ended December 31, 2013, 2012 and 2011, respectively.