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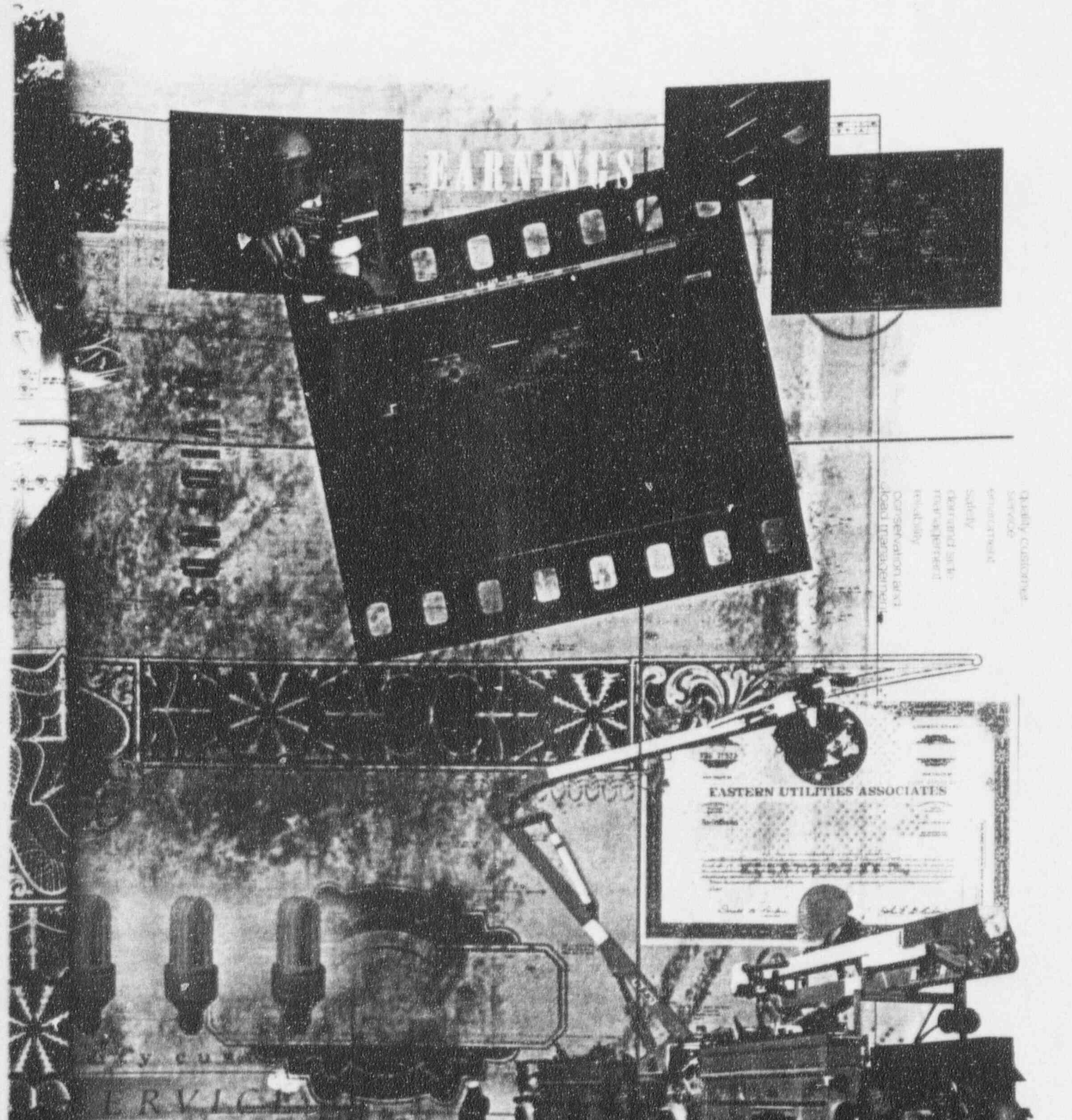
EASTERN UTILITIES ASSOCIATES 1993 ANNUAL REPORT



Thos A Edison

EUA System Profile

Eastern Utilities Associates is an investor-owned holding company whose shares are traded on the New York and Pacific Stock Exchanges under the ticker symbol EUA. Its subsidiaries are principally engaged in the generation, transmission, distribution and sale of electricity; energy related services such as energy management and cogeneration; and promoting the conservation and efficient use of energy.

To better reflect the competitive business environment in which it operates, EUA is organized in four distinct business units.

Core Electric Business

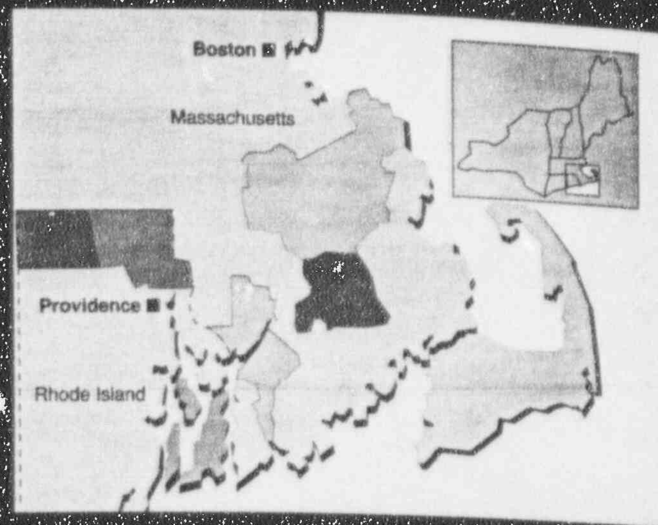
EUA's core electric business comprises two business units. The retail business unit provides electric service to more than 290,000 customers in southeastern Massachusetts, and northern and coastal Rhode Island. Retail electric subsidiaries are Blackstone Valley Electric Company, Eastern Edison Company and Newport Electric Corporation. The wholesale business unit is Montaup Electric Company, EUA's generation and transmission subsidiary, which provides electricity at wholesale to the retail business units and two other non-affiliated municipal electric utilities.

Energy Related Business

EUA's energy related business unit includes EUA Cogenex Corporation, EUA Ocean State Corporation and EUA Energy Investment Corporation. EUA Cogenex is the most active of our energy related companies with over 700 energy services contracts in 32 states and the District of Columbia (map). EUA Ocean State owns a 29.9% partnership interest in the Ocean State Power Project in northern Rhode Island. EUA Energy makes investments in energy related businesses.

Corporate

The corporate business unit is made up of Eastern Utilities Associates — the System's parent company — and EUA Service Corporation which provides professional and technical services to all EUA System companies.

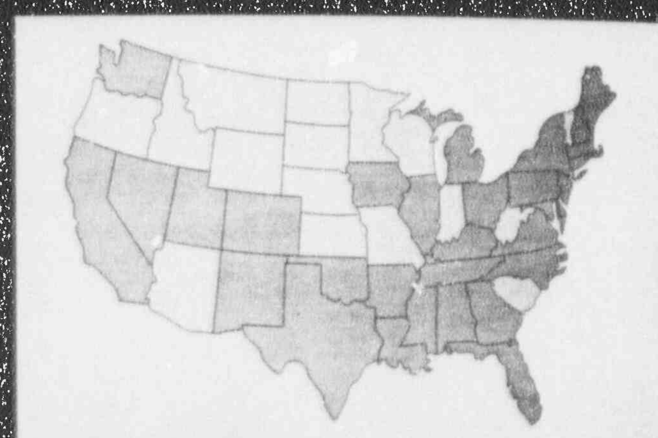


Montaup Electric Wholesale Territory

Blackstone Valley Electric Service Area

Eastern Edison Service Area

Newport Electric Service Area



The 32 states and the District of Columbia, where EUA Cogenex does business.

On The Cover

Symbols of the electric industry and of Eastern Utilities Associates were used by noted artist/illustrator Frank Miller to create the collage comprising the front and back covers of this Annual Report. Individual portions of the collage are used for illustration within the publication.

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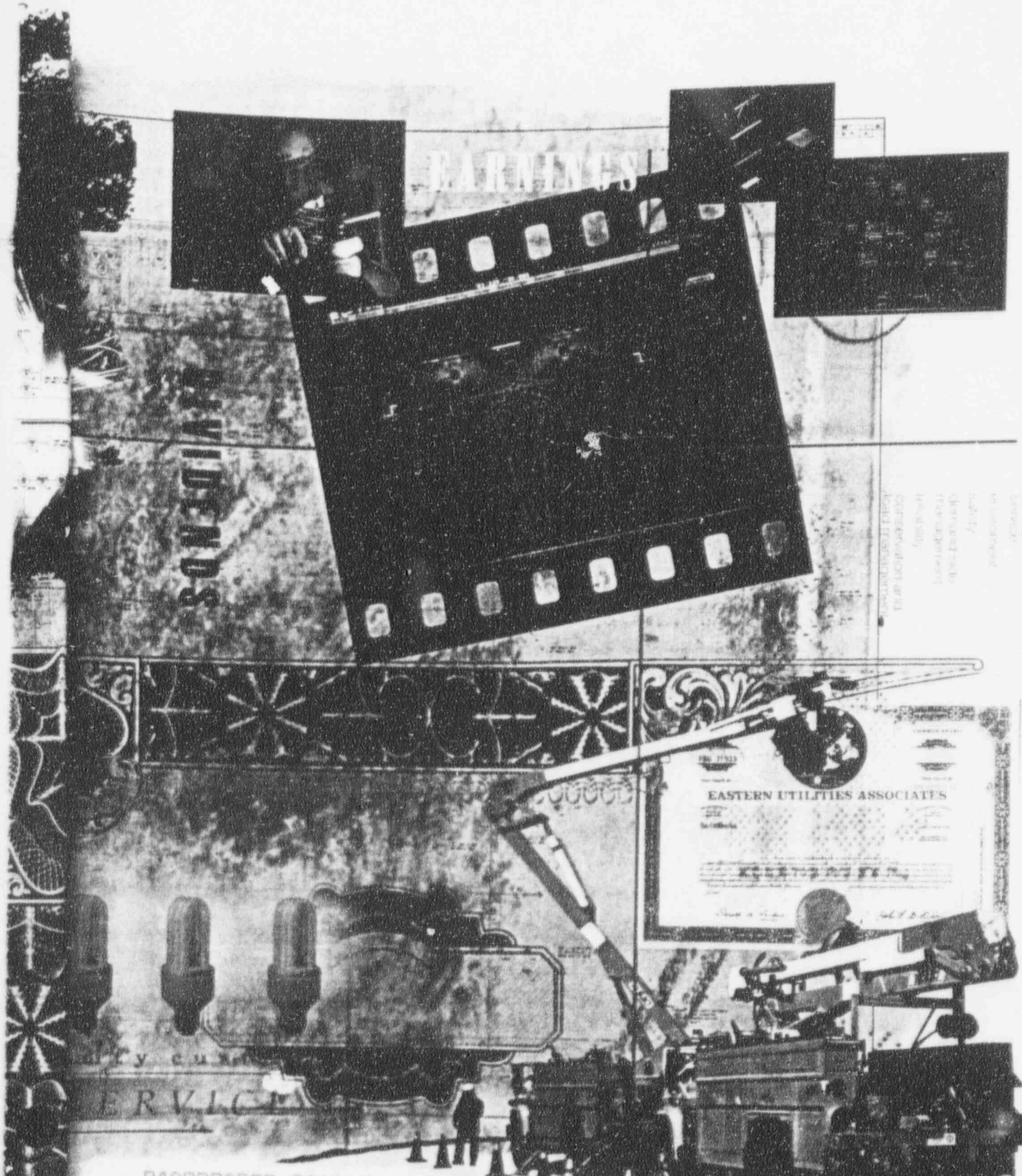

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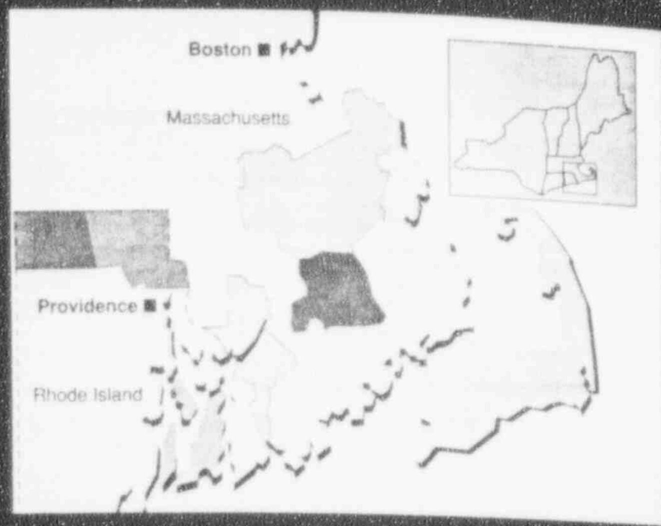

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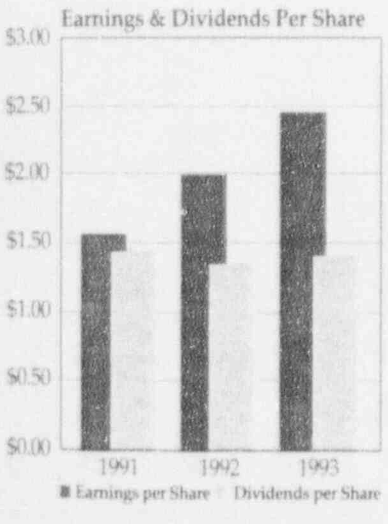
HIGHLIGHTS

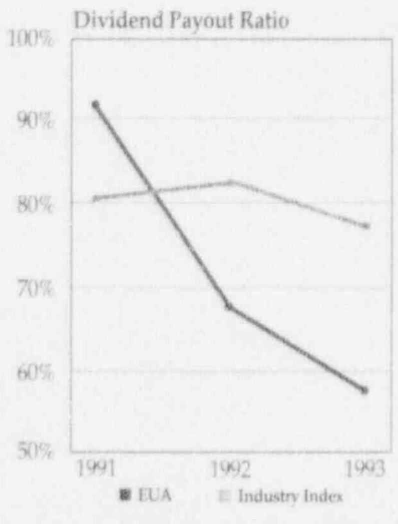
	1993	1992	1991
FINANCIAL DATA (dollars in thousands)			
Operating Revenues	$ 566,477	$ 541,964[1]	$ 522,583[1]
Consolidated Net Earnings	44,931	34,111	26,260
Return on Average Common Equity	15.0%	13.2%	10.8%
Common Shareholder Equity- % of Capitalization (Year End)	38.7%	34.5%	31.8%
Total Assets	1,203,137	1,203,320[1]	1,163,776[1]
Cash Construction Expenditures	60,767	55,736	57,570

	1993	1992	1991
COMMON SHARE DATA			
Consolidated Earnings per Share	$ 2.44	$ 2.00	$ 1.58
Dividends Paid per Share	$ 1.42	$ 1.36	$ 1.45
Annual Dividend Rate	$ 1.44	$ 1.36	$ 1.36
Total Common Shares Outstanding	19,032,598	17,237,788	16,831,062
Average Common Shares Traded Daily	42,854	30,511	56,874
Book Value per Share (Year End)	$ 17.50	$ 15.48	14.77
Market Price • High	29⅞	25¼	25
• Low	23⅞	20⅜	15¾
• Year End	28	24¼	20⅜

	1993	1992	1991
OPERATING DATA			
Total Primary Sales (mwh)	4,352,000	4,279,000	4,265,000
System Requirements (mwh)	4,599,000	4,520,000	4,545,000
System Peak Demand (mw)	854	849	879
System Reserve Margin (At Peak)	37.1%	46.1%	28.9%
System Load Factor	61.5%	57.5%	59.0%
Customers (Year End)	291,799	291,123	289,586
Employees (Year End) – Core Electric	766	806	838
– Energy Related	238	150	75
– Corporate	440	443	450

(1) Restated to reflect consolidation of EUA Cogenex partnerships previously reflected as equity investments.





To Our Shareholders

In 1993 we achieved our goal of providing you with an above average return on your investment while continuing to position Eastern Utilities to meet the intensifying competition developing within the electric utility industry. Our constant emphasis on cost control and strategic planning has resulted in increased earnings, a stronger core utility business and continued success in diversifying our energy-related investments.

Financial Results Earnings per common share in 1993 were $2.44, a 22% improvement over 1992's $2.00. Consolidated return on average common equity increased in 1993 to 15.0%, versus 1992's 13.2%. Total return on shareholder investment was 20%. Slightly more than one-half the 1993 earnings increase came from utilization of investment tax credits associated with the EUA Power Settlement. Our energy-related investments and effective cost control measures also contributed to the increase. In addition, we made considerable progress in strengthening our balance sheet in 1993.

Seated: Donald G. Pardus, *Chairman and Chief Executive Officer.*
Standing: John R. Stevens, *President and Chief Operating Officer.*

Your dividend was increased to an annual rate of $1.44, the first dividend increase since 1990. This is the 65th consecutive year that Eastern Utilities shareholders have received a dividend.

Competition Competition, without a doubt, is the most discussed issue in the electric utility industry today. EUA recognized early on that competition would drive management to prioritize its resources and dramatically change the way we do business. To prepare for an intensified competitive environment, EUA has reorganized to meet these challenges.

Through our Strategic Planning process, we have segregated our business into four strategic units which are described in the Business and Strategies section which follows this letter.

Core Electric Business There are encouraging signs that the long awaited economic recovery may finally be taking hold in our region. Total primary sales increased 1.7% in 1993. Sales to industrial customers were up for the second year in a row; residential customer sales increased after three years of decline. Commercial sales, however, remained flat.

This March we expect to request the Federal Energy Regulatory Commission to authorize a reduction in the rate Montaup Electric, our wholesale generating subsidiary, charges its customers. This reduction, coupled with incentive rates intended to encourage economic development in our service territories, is expected to improve our competitive position and help promote economic growth in the communities we serve.

In 1993, we continued to seek and implement economies in operations without sacrificing our high standards of service reliability and safety. We consolidated retail division functions and reduced our core electric business workforce by almost 5%, mostly through attrition. Over the past three years, the reduction has been 12%. Through the diligence of our employees and the Teaming Up for Performance incentive program, controllable operation and maintenance expenses were reduced about 6% compared to last year. We also refinanced a number of debt issues in 1993 to take advantage of lower interest rates.

The outlook for our core electric business is relatively stable in terms of annual earnings potential. Each company within this unit is expected to earn at or near its allowed rate of return without increasing their rates. These companies will also finance their cash construction requirements with internally generated funds thus avoiding the negative impact of higher interest rates should they return. Benefitting from the economic recovery in our service territories, this business unit will continue to provide a stable contribution to EUA earnings over the next few years.

Energy Related Businesses Our EUA Cogenex subsidiary remains a leader in the energy services field with a growing client list that includes the Department of Energy and its headquarters building in Washington D.C.. That project won first place in a respected national trade publication's Efficient Building Awards program. EUA Cogenex also acquired the James L. Day Co. of Victor, N.Y., which has been renamed EUA Day. It is one of the oldest and largest distributors of Andover building automation controls in the country. The addition of Northeast Energy Management, Inc., a Maine based energy services company similar to EUA Cogenex, provides new growth opportunities in that state.

In keeping with our strategy to invest only in energy related activities, our EUA Energy Investment Corporation subsidiary has invested in a limited partnership, TransCapacity L.P., which will provide services nationally to all gas users as they struggle to cope with the impacts of the Federal Energy Regulatory Commission's Order 636 and gas pipeline deregulation.

We fully expect that as we move forward, our Energy Related business unit will contribute a growing share of EUA's earnings. While EUA has emerged as a diversified energy services company, we recognize that our core electric business remains the foundation of the EUA System.

Changing Times While there has always been competition for customers from other energy suppliers, competition from within the industry itself demands that we sharpen our focus to ensure continued success in a changing environment. We have instituted procedures to tie strategic planning to our operating budget that will enhance our ability to control costs and meet customer needs. We have also made the marketing of the products and services we offer a priority and continue to stress the importance of employee training and better customer service.

We are grateful to EUA System employees for their enthusiastic support and hard work. We appreciate your loyalty as shareholders. Your confidence will be rewarded as we remain dedicated to enhancing the value of your investment.

Sincerely,

Donald G. Pardus
Chairman

John R. Stevens
President

March 8, 1994

OVERVIEW

Competition is the most discussed issue in the electric utility industry today. While competition is not new to the industry, its role to date has been minor compared to the part it will play in the future. One of the major goals of the National Energy Policy Act of 1992 is to increase competition within the electric utility industry, in order to accelerate its restructuring. As competition shapes the future of the business, those companies that have recognized the need to change course will be in a better position to compete — those still mired in the monopoly mindset will find it difficult to survive.

The "electric company" of monopoly days is gone. EUA recognized early on that competition would require it to prioritize resources and change the way it does business. We have emerged as a diversified energy services company, poised for competition, the challenges it poses and the opportunities it provides. To prepare for competition, EUA's Strategic Plan set goals and strategies for each of its business units: Retail, Wholesale, Energy Related and Corporate. The Retail and Wholesale business units combine to form our Core Electric Business, which remains the foundation of the EUA System. The Energy Related Business unit combines our energy related diversification efforts, while the Corporate business unit provides professional and technical services to all EUA System companies. Stable capital requirements in our Core Electric Business over the next few years will allow management to invest its resources in other business opportunities that present greater potential for growth of your investment. The following 1993 business review maps EUA's strategic direction to successfully meet the challenge of an intensifying competitive environment.

CORE ELECTRIC BUSINESS

The Core Electric Business is comprised of our Retail electric and Wholesale electric business units. In 1993 these business units combined to contribute over $33.5 million or $1.82 per share to EUA's consolidated earnings per share.

The Retail Business Unit (Blackstone Valley Electric Company, Eastern Edison Company and Newport Electric Corporation) has prepared for increasing competitive pressures by continuing strict cost control measures which began four years ago; by re-emphasizing our commitment to quality customer service; and by filing economic development rates designed to help existing customers expand and attract new business to the area. Our retail subsidiaries continue to consolidate retail division functions by state, streamline organizations and further cut costs. During 1993, the Retail Business Unit saw its controllable operation and maintenance expenses decrease by more than 2% — in the face of an increase in the Consumer Price Index of approximately 3%. This was accomplished both by reducing our Retail Business Unit workforce by an additional 4%, bringing the total reductions since 1990 to almost 12%, and by keeping tight rein on how our operations and maintenance expense dollars are spent. As important as cost control is, quality customer service continues to be a primary focus of our Core Electric Business. We also are training employees to sharpen their marketing skills to better serve our customers.

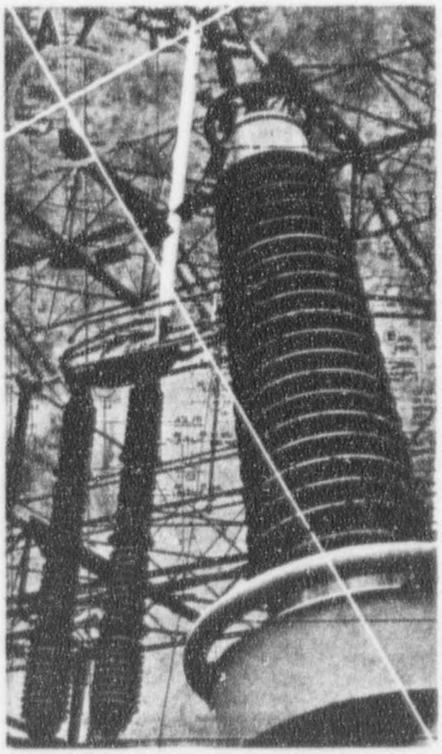
The economy in our service territory has bottomed out and is starting to improve. Kilowatthour (kwh) sales to our customers were up 1.7% in 1993 — even though our successful conservation programs reduced sales by almost 1%. Rising employment, increased housing starts and sales of existing homes, increased retail sales, and a substantial increase in industrial sales of almost 4% are all indicators that our service territory economy is on a steady course to recovery.

We continue to monitor the potential impacts of competition. The fact that our industrial sales account for only 18% of the EUA System's total kwh sales and that they are derived from a diverse mix of many relatively small customers should mitigate potential negative impacts from external competition in this sector.

The outlook for our Retail Business Unit is relatively stable in terms of investment, rate base and annual income potential. Each company within this Business Unit is expected to earn at or near its allowed rate of return and to cover all its cash construction requirements with internally generated funds. We expect that this Business Unit will continue to provide a stable contribution to EUA System financial results over the next few years.

We recognize that historically electric utilities in the Northeastern United States have had rates that are higher than many other sections of the country. The ultimate goal of the Retail Business Unit is to reduce our costs relative to the other utilities in the region and to be a provider of energy and related services with more competitive prices, while maintaining a level of service above that of any competitors.

The Wholesale Business Unit (Montaup Electric Company) will respond to increasing competitive pressures by continuing to control costs and by seeking innovative ways to reduce its overall cost of providing electricity to its customers. Like the Retail Business Unit, our Wholesale Business Unit saw a reduction of more than 1% in controllable operation and maintenance costs versus a Consumer Price Index increase of 3%. Our Wholesale Business Unit workforce was reduced an additional 7% in 1993. In March 1994, Montaup expects to file for a reduction in the rates it charges its wholesale customers, which will lower ultimate customer costs because the reduction will flow through to our retail electric businesses.



Substation insulators symbolize the underlying strength of our Core Electric Business.

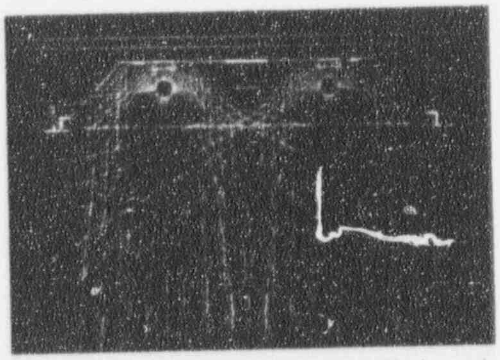
The Wholesale Business Unit expects to have sufficient generating capacity available to meet the needs of its customers through the end of this decade. While a declining rate base will result in lower annual income contributions over the next few years, we expect construction requirements to be stable or to decline slightly.

The primary goal of the Wholesale Business Unit is to continue to lower its cost of wholesale power relative to other suppliers.

Energy Related Business

The Energy Related Business Unit, — EUA Cogenex Corporation, EUA Ocean State Corporation and EUA Energy Investment Corporation — contributed $7.2 million or 39 cents per share to consolidated earnings in 1993. As we move forward, we expect our Energy Related Business Unit to contribute a growing percentage of EUA's net income and investment.

EUA Cogenex's contribution to EUA's consolidated earnings in 1993 increased by 25% to $3.5 million or 19 cents per share. EUA Cogenex is the most active of our energy related businesses with over 700 energy service contracts in 32 states and the District of Columbia. Recognized as one of the leaders in the energy services industry, EUA Cogenex recently completed two strategic acquisitions designed to enhance its competitive position in this rapidly expanding industry. James L. Day Company, renamed EUA Day, is one of the oldest and largest distributors of building automation controls in the country and Northeast Energy Management, Inc., a Maine-based company provides energy services similar to EUA Cogenex.



Computer-generated light-ray patterns are used in design of energy efficient light fixtures.

In a recent study done for the Department of Energy, the energy efficiency market was estimated to be up to $27 billion domestically through the end of this decade. To maximize our participation in this market, EUA Cogenex has been developing a highly-trained national sales force to actively pursue new customers in 1994 and beyond. This skilled staff will help drive EUA Cogenex's growth in 1995 and beyond. Annual sales growth of 20% is a realistic goal which should enable EUA Cogenex to continue increasing its contribution to consolidated earnings.

Our EUA Ocean State subsidiary contributed $5.3 million or 29 cents per share to EUA's Consolidated earnings in 1993. This equates to a return on our invested equity of almost 32%. Since EUA Ocean State's only asset is its 29.9% ownership interest in the Ocean State Power Project in Rhode Island, we expect its contribution to decline gradually over the 20-year life of the plant.

Our decision to invest only in energy related opportunities resulted in the establishment of EUA Energy Investment in 1987. One such opportunity is a recent investment in TransCapacity Limited Partnership (L.P.). The entire investment, $2.2 million, was charged to expense in 1993. TransCapacity L.P. is developing specialized software and systems for assessing the gas pipeline information that will become available as a result of The Federal Energy Regulatory Commission's Order 636 which deregulated portions of the gas industry. More importantly, it has the potential to provide services on a fee basis nationally to all gas users as they struggle with the impacts of Order 636 and gas pipeline deregulation. While it is still too early to project earnings contributions from this investment with confidence, we are excited about its potential for meaningful contributions in the future.

The goals of our Energy Related Business Unit are to provide an increasing percentage of EUA System earnings, maintain EUA Cogenex's leadership in the energy services industry and investigate new energy related business opportunities that will enhance Shareholder value.

Summary

As always, we will continue to carefully evaluate our strategies to enhance share value for our shareholders. We will aggressively pursue diversification through energy related businesses, while recognizing that our core electric business remains our primary business.

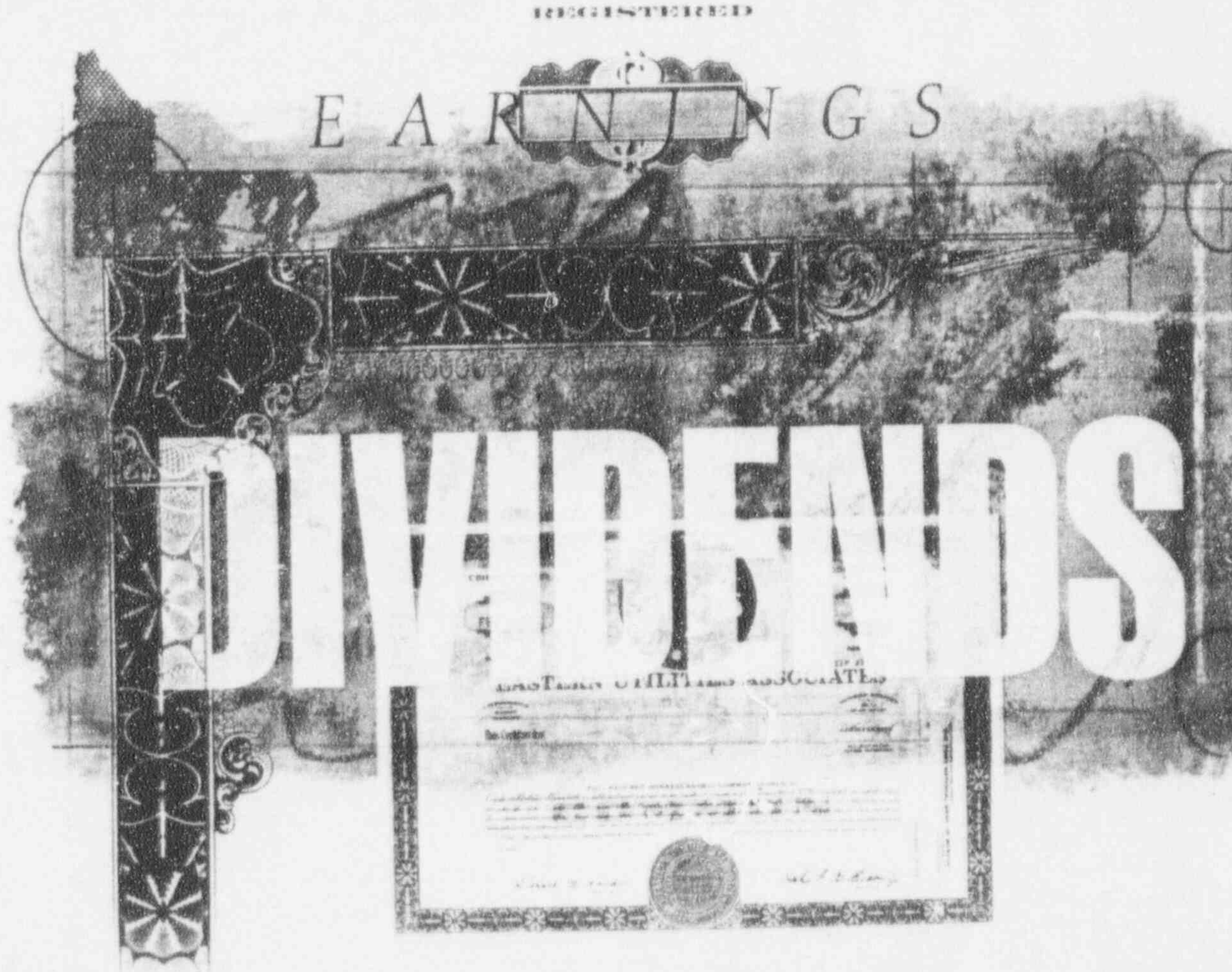
Selected Consolidated Financial Data [1]

Years Ended December 31, (In Thousands Except Common Share Data)	1993	1992[2]	1991[2]	1990	1989
INCOME STATEMENT DATA:					
Operating Revenues	$ 566,477	$ 541,964	$ 522,583	$ 465,685	$ 429,422
Operating Income	75,406	64,347	66,336	55,385	58,388
Consolidated Net Earnings (Loss)	44,931	34,111	26,260	(130,182)	40,877
BALANCE SHEET DATA:					
Plant in Service	1,016,453	1,002,717	990,726	985,138	687,833
Construction Work in Progress	8,728	4,943	6,881	6,809	674,850
Gross Utility Plant	1,025,181	1,007,660	997,607	991,947	1,362,683
Accumulated Depreciation and Amortization	296,995	274,725	251,503	241,128	203,990
Net Utility Plant	728,186	732,935	746,104	750,819	1,158,693
Total Assets	1,203,137	1,203,320	1,163,776	1,094,740	1,376,032
CAPITALIZATION:					
Long-Term Debt - Net	496,816	462,958	488,452	443,595	606,079
Redeemable Preferred Stock - Net	25,053	28,496	29,980	34,530	34,612
Non-Redeemable Preferred Stock - Net	6,900	15,850	15,850	15,850	15,079
Common Equity	333,165	266,855	248,598	237,393	375,016
Total Capitalization	861,934	774,159	782,880	731,368	1,030,786
Short-Term Debt	37,168	109,936	72,449	43,071	58,676
COMMON SHARE DATA:					
Consolidated Earnings (Loss) per Average Common Share	$ 2.44	$ 2.00	$ 1.58	$ (8.18)	$ 2.95
Average Number of Shares Outstanding	18,391,147	17,039,224	16,608,090	15,917,255	13,877,091
Return on Average Common Equity	15.0%	13.2%	10.8%	(42.5%)	12.1%
Market Price — High	29⅞	25¼	25	41½	41¾
— Low	23⅜	20⅜	15¼	20¾	30⅜
— Year End	28	24¼	20⅜	23⅞	41¾
Dividends Paid per Share	$ 1.42	$ 1.36	$ 1.45	$ 2.575	$ 2.475

(1) Includes financial and operating statistics for Newport Electric Corporation from April 1, 1990 and EUA Power Corporation through December 31, 1990 at which time EUA Power was deconsolidated for financial reporting purposes.

(2) Income Statement and Balance Sheet Data have been restated to reflect consolidation of EUA Cogenex partnerships previously reflected as equity investments.

Management's Discussion And Analysis Of Financial Conditions And Review Of Operations



Overview

Eastern Utilities Associates' (EUA) Consolidated Net Earnings for 1993 increased 31.7% to $44.9 million or $2.44 per average common share, from 1992 Consolidated Net Earnings of $34.1 million, or $2.00 per share. Earnings Per Share increased in spite of a 7.9% increase in the average number of common shares outstanding primarily due to the April 1993 issuance of 1.3 million common shares.

Net Earnings and Earnings Per Share By Business Unit:

	1993		1992	
	Net Earnings (000's)	Earnings Per Share	Net Earnings (000's)	Earnings (Loss) Per Share
Core Electric Business	$33,461	$1.82	$31,958	$1.88
Energy Related Business	7,243	0.39	9,768	0.57
Corporate	4,227	0.23	(7,615)	(0.45)
Consolidated	$44,931	$2.44	$34,111	$2.00

The 1993 results were impacted by a number of factors described under each business unit below.

Core Electric Business: Positive earnings impacts included:

- Rate increases implemented by EUA's retail electric subsidiaries during 1992 and 1993;
- Increased kilowatthour (kwh) sales;
- A marked reduction in long-term debt interest charges resulting from the recent financing activity of the Core Electric Business; and
- EUA's continued commitment to controlling costs wherever possible without impacting the safety, adequacy and reliability of its electric service.

These positive earnings impacts were somewhat offset by the unrecovered expense related to the accrual of post-retirement benefits other than pensions mandated by the Financial Accounting Standards Board (FASB) Statement No. 106 (FAS106).

Energy Related Business: The Energy Related Business impacts on 1993 earnings were as follows:

- Increased earnings contributions from EUA's energy services subsidiary, EUA Cogenex Corporation (EUA Cogenex);
- Lower earnings contributions from EUA's investment in the Ocean State Power Project (OSP); and
- Lower earnings contributions from EUA Energy Investment Corporation (EUA Energy) resulting from start-up costs related to its initial investment in TransCapacity Limited Partnership (L.P.).

Corporate: The most significant impact on 1993 earnings was the utilization of investment tax credits which expire with the 1993 tax year and are related to the December 1992 EUA Power settlement agreement. The utilized tax credits which lowered 1993 federal income tax expense amounted to $4.9 million, or 27 cents per share, are included in corporate results above.

The EUA Power settlement also caused a significant decrease in legal expenses in 1993.

Comparison of Financial Results

In 1993 EUA consolidated the EUA Cogenex partnerships which had previously been accounted for as equity investments. The 1992 and 1991 financial statements have been restated to present these partnerships on a consolidated basis. The restatements do not materially change amounts previously reported.

Operating Revenues

The table below sets forth estimates of the factors which contributed to the change in Operating Revenues from 1991 through 1993:

($ in millions)	Increase(Decrease) From Prior Years 1993	1992
Operating Revenue change attributable to: Core Electric Business:		
Purchased Power Recovery	$ 7.0	$ 7.1
Recovery of Fuel Costs	(2.3)	(6.6)
Effect of Rate Changes	8.6	3.6
Unit Contracts and Sales to NEPOOL	(13.1)	3.6
Kilowatthour Sales and Other	1.5	(2.8)
Energy Related Business:		
EUA Cogenex	22.8	14.5
Total	$ 24.5	$19.4

Core Electric Business: The revenue attributable to the Purchase Power Recovery reflects our retail companies' method of recovery of purchased power capacity costs.

Revenues attributable to Recovery of Fuel Costs result from the operation of fuel adjustment clauses. The change in such revenues reflects corresponding underlying changes in fuel costs.

The Effect of Rate Changes reflects base rate increases for; (i) Montaup Electric Company (Montaup), effective May 1991; (ii) Blackstone Valley Electric Company (Blackstone) effective in April 1992; (iii) Newport Electric Corporation (Newport), effective October 1992, and (iv) Eastern Edison Company (Eastern Edison) effective January 1993.

Revenues attributable to Unit Contracts and sales to NEPOOL reflect revenues from such short-term contracts and Montaup's and Newport's interchange sales to the New England Power Pool.

The change in revenues associated with kwh Sales and Other reflects the effect of kwh sales on base revenues and changes in other operating revenues.

Energy Related Business: EUA Cogenex revenues reflect the change in total revenues of that company. The 1993 increase is due primarily to revenues from its EUA Nova division which was acquired in December 1992 and increased revenues related to the sale of energy equipment. The 1992 increase is due primarily to an increase in revenues of the consolidated partnerships. See offsetting increases in 1992 partnership expenses below.

Core Electric Business Kwh Sales

Total Energy Sales decreased in 1993 from 1992 due to a significant decrease in short-term unit contract sales, which include sales to NEPOOL. Short-term unit contract and NEPOOL sales recover the underlying cost of fuel only and therefore have no impact on earnings. Total primary sales, however, increased by 1.7% in 1993, paced by improvements of 3.9% and 3.1% in sales to our industrial and residential classes, respectively. Contributing to these gains was the hotter than normal summer of 1993 and the slow but steady economic recovery taking place in our retail service territories. Economic indicators suggest that this trend will continue for the foreseeable future.

The 1992 versus 1991 increase in Total Energy Sales of the Core Electric Business was due to a significant increase in short-term unit contract sales. Total primary sales increased by 0.3% primarily due to gains of nearly 1% in sales to both our commercial and industrial customers. The positive effects of the slow economic recovery and colder 1992 winter months were mitigated by unusually mild weather in summer 1992. Total system requirements remained relatively flat due to changes in Losses and Company Use.

Percentage Changes in Kwh Sales by Class of Customer:

	Percent Increase (Decrease) From Prior Year	
	1993	1992
Residential	3.1	(0.3)
Commercial	0.0	0.8
Industrial	3.9	0.9
Other Electric Utilities	(9.9)	3.5
Other	(0.3)	(4.5)
Total Primary Sales	1.7	0.3
Losses and Company Use	2.4	(13.5)
Total System Requirements	1.7	(0.5)
Unit Contracts	(54.2)	23.0
Total Energy Sales	(15.5)	5.7

EXPENSES 1993 VS. 1992

Fuel And Purchased Power: The EUA System's most significant expense items continue to be fuel and purchased power expenses of our Core Electric Business which together comprised about 45.8% of total operating expenses for 1993.

Fuel expense decreased approximately $11.5 million or 11.9%, from 1992, due largely to a decrease in total System generation resulting from outages experienced by company-owned units. Canal Unit 2, which is 50% owned by Montaup, began a scheduled outage on February 13, 1993, and returned to service on April 5, 1993 while Somerset Unit No. 6, a wholly-owned unit of Montaup, was out of service for most of 1993 due to unanticipated waterwall restoration. Also, Somerset Unit 5 was out of service for five months prior to being placed in deactivated reserve on January 25, 1994. Offsetting these impacts on fuel expense somewhat was a 3.7% increase in Montaup's average cost of fuel for the period.

Purchased Power expense decreased $2.3 million or 1.6%, as compared to 1992. The decrease was caused primarily by a $2.9 million decrease in conservation and load management (C&LM) expense recorded as purchased power and a $1.0 million decrease attributable to Newport purchases from sources other than Montaup. Offsetting these decreases somewhat were the increased costs of $1.6 million billed by Montaup's suppliers.

Operation And Maintenance: Overview: Other Operation and Maintenance (O&M) expenses for 1993 totaled $182.1 million an increase of $29.2 million over 1992. Total O&M expenses are comprised of three components--Direct Controllable, Indirect and Energy Related. Changes in these components for 1993 were as follows:

	1993	1992	Increase (Decrease)
	(In Millions of Dollars)		
Direct Controllable	$ 82.7	$ 88.5	$ (5.8)
Indirect	50.6	36.6	14.0
Energy Related	48.8	27.8	21.0
Total O&M	$ 182.1	$152.9	$ 29.2

Direct Controllable expenses of our Core Electric and Corporate Business Units represent 45% of total O&M and include expense items such as: salaries, fringe benefits, insurance, maintenance, etc. The reduction in Direct Controllable expenses in 1993 reflects our continued commitment to cost control. Our core electric workforce was reduced an additional 5% in 1993 and through the diligent efforts of our employees we were able to reduce direct controllable expenses in spite of an increase in the Consumer Price Index of approximately 3%.

Indirect expenses include items over which we have limited short-term control. Indirects would include such expense items as: O&M expenses related to EUA's ownership interests in nuclear generating facilities such as Seabrook Unit 1 and Millstone Unit 3 (see Note I of Notes to Consolidated Financial Statements for other jointly owned units), power contracts where transmission rental fees are fixed, conservation and load management expenses that are fully recovered in revenues and expenses related to new accounting standards such as FAS87 and FAS106, to name a few.

The Energy Related component relates to O&M expenses of our Energy Related Business Unit where increases are tied to new and expanded business activity. EUA Cogenex continues to be the fastest growing company in this Business Unit as is reflected by its acquisitions of three smaller companies over the past 13 months.

The increase of $29.2 million in 1993 was due primarily to the following:

Core Electric Business: (i) increased C&LM expenses of $4.1 million; (ii) additional expenses of approximately $3.5 million relating to EUA's adoption of FAS106 (iii) increases of approximately $1.5 million relating to pension accrual; and (iv) increased expenses of approximately $3.9 million relating to Montaup's jointly owned units.

Energy Related Business: (i) increased EUA Cogenex expenses of approximately $19.3 million, relating primarily to the operations of its EUA Nova division; and (ii) increased expenses of $2.2 million related to EUA Energy's expensing of its initial investment in TransCapacity L.P.

Corporate: The increases discussed above were offset somewhat by decreases of approximately $3.7 million in corporate legal expenses due primarily to the fourth quarter 1992 settlement of legal proceedings related to EUA Power.

Interest Charges: Interest on long-term debt for 1993 decreased approximately $4.1 million or 9%, compared to 1992. This decrease is due, in part, to Eastern Edison's redemption of $30 million of 9-1/4% First Mortgage and Collateral Trust Bonds (FMBs) in May 1992 and $15 million of 8-1/2% FMBs in June 1992. The redemptions were made primarily with cash proceeds from the early redemption of Montaup securities, which were owned by Eastern Edison. Eastern Edison also refinanced $35 million of 10% FMBs with $35 million of 7.78% Medium Term Notes in July 1992. See "System Financing Activity" for additional factors contributing to the decline in long-term debt interest expense.

Offsetting these declines somewhat was the issuance by EUA Cogenex of $15 million of 7.22% Unsecured Notes in September 1992 and $50 million of 7% Unsecured Notes in October 1993.

Income Taxes: EUA files a consolidated federal income tax return for the EUA System. EUA's 1993 composite federal and state effective tax rate was approximately 27.3% as compared to approximately 32.4% in 1992. This decrease is primarily attributable to the income recognition of a portion of the expected utilization of EUA Power's investment tax credits to reduce EUA's 1993 consolidated tax liability. These tax credits amounted to approximately $4.9 million in 1993 and are included in Other Income (Deductions) - Net. The decrease more than offset the 1% increase in the federal tax rate to 35% in 1993.

Other Items: Depreciation and Amortization increased by $1.9 million or 4.4% due primarily to an increase in EUA Cogenex depreciation expense of $1.3 million.

Allowance for Funds Used during Construction (AFUDC) represents a non-cash element of income and amounted to only 5.3% of Consolidated Net Earnings in 1993. Total AFUDC and capitalized interest for 1993 did not significantly change from the 1992 level.

Equity in Earnings of Jointly Owned Companies decreased in 1993 by approximately $2.7 million due primarily to lower earnings on EUA Ocean State Corporation's (EUA Ocean State) investment in the Ocean State Power Project.

Other Income (Deductions)-Net decreased by $2.3 million in 1993 due primarily to the 1992 reversal of certain previously established reserves relating to matters in litigation, the favorable resolution of which was reached in 1992. Partially offsetting this decrease was a reduction in federal income tax expense of $4.9 million as discussed above.

The Preferred Dividend requirement of the retail subsidiaries decreased by approximately $700,000 or 18% in 1993 due to Eastern Edison's 1993 Preferred Stock financing activity. See "EUA System Financing Activity" for further discussion.

Inflation continues to have an impact on the operation of our System. At the federal level, wholesale ratemaking practices permit a forward looking test period which enables us to anticipate inflationary increases. The traditional use of an historical test period for retail ratemaking purposes in Massachusetts does not provide us this oppo[illegible]unity.

Expenses 1992 vs. 1991

Fuel And Purchased Power: Fuel expense decreased $2.3 million, or 2.3%, when compared to 1991. This change was due to the offsetting effects of a 6% decrease in the average cost of fuel due to greater usage of less expensive natural gas in 1992 and an increase in total energy sales of 5.7% due primarily to unit contract and system sales.

Purchased power expense decreased $1.9 million to $141.8 million in 1992 due primarily to $9.5 million of credits recognized by EUA's retail subsidiaries in 1992 relating to prior period billings. These credits were offset somewhat by an increase in net purchases under expiring and new purchased power contracts (including OSP Unit II) aggregating $4.6 million, increased purchased power costs billed by power suppliers of Montaup and Newport aggregating $800,000, and an increase in C&LM expense of $2.1 million.

Operation And Maintenance: Other operation and maintenance expenses increased $16.1 million, or 11.8%, in 1992 over 1991 due primarily to a $14.6 million increase in EUA Cogenex partnership expenses. Also contributing to the change was the offsetting impacts of an increase of $4.7 million in Corporate legal expenses and decrease of $3.4 million in Eastern Edison amortization expense. Previously deferred costs of Eastern Edison, including Hurricane Gloria and computer conversion costs, became fully amortized in December 1991.

Interest Charges: Interest expense on long-term debt increased by $3 million, or 6.9%, in 1992 as compared to 1991. This increase was due to new issuances of long-term debt in 1992 along with EUA Cogenex's October 1991 issuance of $20 million of 9.6% Unsecured Notes. Partially offsetting this increase was the interest savings resulting from 1992 refinancing and redemption activity of the Core Electric Business.

Other Items: Depreciation and amortization expense increased by $1.1 million, or 2.6%, in 1992 over 1991 primarily due to an increase in depreciable plant of our Core Electric Business and an increase in depreciation expense of EUA Cogenex partnerships.

Total AFUDC and capitalized interest, which represented 6.9% of 1992 Consolidated Net Earnings, decreased $242,000 from 1991 due primarily to lower AFUDC rates used in 1992.

The increase in Equity Earnings of Jointly Owned Companies in 1992 relates primarily to EUA Ocean State's equity earnings from its investment in OSP.

Other Income and (Deductions) - Net increased $6.9 million in 1992 when compared with 1991. The increase was primarily due to the following: (i) a net reduction of $4.3 million in the level of reserves to be established under generally accepted accounting principles relating to certain matters in litigation, the favorable resolution of which was reached in 1992; (ii) an increase of $1.2 million in EUA Cogenex's interest income and other income; and, (iii) a decrease of $1.7 million in costs incurred for litigation from 1991 levels. These factors were partially offset by a reduction in the amount of income tax credits allocated to this account in 1991 as a result of the utilization of EUA Parent tax losses incurred in 1991.

Core Electric Business Rate Activity

Montaup expects to file a rate reduction application with the Federal Energy Regulatory Commission. This application will match more closely Montaup's revenues with its decreasing cost of doing business resulting from, among other things, a reduced rate base, lower capital costs and successful cost control efforts. The application will also include a request for recovery of all of Montaup's FAS106 expenses as provided in FERC's generic order of December 1992. A decision on this application is expected during the second half of 1994.

EUA System Financing Activity

Core Electric Business: As shown on the accompanying Consolidated Statement of Indebtedness, Eastern Edison issued new FMBs and Tax-Exempt Securities aggregating $195 million during 1993, the proceeds of which were used to redeem a like amount of higher cost debt.

1993 Long-Term Debt Activity

(Excluding sinking fund payments)

(Dollar Amounts in Millions)	Issuances		Redemptions	
Eastern Edison Refinancings:	May	$20 @ 5 7/8%	June	$ 10 @ 8 3/8%
		$40 @ 6 7/8%		$ 35 @ 10 1/8%
		$40 @ 8%	July	$ 55 @ 9 3/8%
	July	$40 @ 5 5/8%	Aug.	$ 40 @ 10 1/8%
		$40 @ 5 3/4%	Sept.	$ 40 @ 9 7/8%
	Sept.	$ 7 @ 4 7/8%	Oct.	$ 7 @ 6 1/2%
		$ 8 @ 6.35%		$ 8 @ 7 7/8%
Eastern Edison Maturity:			Oct.	$ 5 @ 4 1/2%
Eastern Edison Redemption:			June	$ 5 @ 8 3/8%
Newport Redemption:			March	$0.6 @ 10 [illegible]
				$1.4 @ 11[illegible]
Cogenex Issuance:	Oct.	$50 @ 7%		

In 1993 Eastern Edison used available cash to redeem all of its outstanding 4.64%, 8.32% and 9.00% series of Preferred Stock aggregating $21.6 million, and $10 million of FMBs.

Eastern Edison also issued $30 million of 6 ⅝% Preferred Stock in August, the proceeds of which were used to redeem $20 million of its 9.80% Preferred Stock and for other corporate purposes.

On January 6, 1994, Newport issued $7.9 million of variable rate Electric Energy Facilities Revenue Refunding Bonds due 2011. The proceeds were used to redeem $6.0 million of 12% Series Energy Facilities Revenue Bonds and $1.9 million of 8.5% Series Energy Facilities Revenue Bonds.

Energy Related Business: In October 1993, EUA Cogenex issued $50 million of 7% Unsecured Notes due September 15, 2000. Proceeds were used to retire all outstanding short-term bank loans and repay a portion of its short-term loans to EUA.

Corporate: A sale of 1.3 million new common shares of EUA in April 1993 resulted in net proceeds to EUA of approximately $35.1 million. These funds were used to reduce EUA's short-term bank debt.

In addition to its public offering, EUA received proceeds in 1993 of approximately $10.1 million from the issuance and sale of 385,825 common shares primarily through its Dividend Reinvestment and Common Share Purchase Plans.

In 1993 EUA registered 1.5 million common shares with the Securities and Exchange Commission (SEC) to be issued in connection with possible EUA Cogenex acquisitions, of which 108,985 were issued in connection with the December 1993 acquisition of James L. Day Co. Inc. (Day Co.) and 464,579 were issued in connection with the January 1994 acquisition of Northeast Energy Management, Inc (NEM). See "Energy Related Businesses" below for more details.

Financial Condition And Liquidity

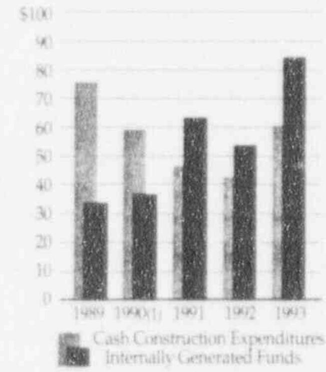
The EUA System's need for permanent capital is primarily related to investments in facilities required to meet the needs of its existing and future customers.

Core Electric Business: For 1993, 1992 and 1991, the Core Electric Business cash construction expenditures were $31.9 million, $21.8 million and $29.4 million, respectively. Cash construction expenditures for 1994, 1995 and 1996 are estimated to be approximately $44.2 million, $38.4 million and $40.6 million, respectively.

In the utility industry, cash construction requirements beyond those satisfied with internally generated funds are customarily funded with short-term borrowings, which are ultimately funded with permanent capital. In 1993, internally generated funds available after the payment of dividends of our Core Electric Business amounted to $51.8 million, or 162.3% of its cash construction requirements.

Cash Construction Expenditures/ Internally Generated Funds

in millions



(1) Excludes EUA Power Cash Interest Payments

In 1992, internally generated funds amounted to $53.5 million or 240.7% of the cash construction requirements of our Core Electric Business. Various laws, regulations and contract provisions limit the use of EUA's internally generated funds such that the funds generated by one subsidiary are not generally available to fund the operations of another subsidiary.

Internally generated funds are expected to supply approximately 130% of 1994 estimated cash construction requirements of the Core Electric Business.

In addition to construction expenditures, projected requirements for scheduled cash sinking fund payments and mandatory redemption of securities in 1994, 1995 and 1996 are $1.9 million, $37.4 million, and $9.4 million, respectively.

Energy Related Business: Construction expenditures of our Energy Related Business amounted to $28.5 million, $32.6 million and $27.8 million in 1993, 1992, and 1991, respectively. In addition, investments in energy related facilities, primarily those of EUA Cogenex and EUA Ocean State for 1993, 1992, and 1991 amounted to approximately $13.2 million, $17.2 million and $39.9 million.

Estimated construction expenditures of the Energy Related Business are $42.4 million, $49.0 million and $49.5 million for 1994, 1995, and 1996, respectively. In addition, energy related investments of EUA Cogenex for the years 1994 through 1996 are estimated to be $11.3 million, $10.0 million, and $10.0 million, respectively.

Internally generated funds are expected to supply

approximately 70% of 1994 estimated cash construction requirements. Continued growth at EUA Cogenex may require some external financing in 1994 which would require regulatory approval.

In addition to construction expenditures and energy related investments, projected requirements for scheduled cash sinking fund payments and mandatory redemption of securities in 1994, 1995 and 1996 are $2.5 million, $3.3 million, and $9.2 million, respectively.

Corporate: Projected requirements for scheduled cash sinking fund payments for the corporate operations for each of the three years following 1993 are $1.1 million.

Short-Term Lines of Credit: At December 31, 1993, EUA System companies maintained short-term lines of credit with various banks aggregating approximately $140 million. Short-term debt outstanding at year's end was $37.2 million, a decrease of $72.8 million from year end 1992 balances.

Year End Short-Term Debt Outstanding By Business Unit ($000's):

	1993	1992
Core Electric Business	$ 0	$ 0
Energy Related Business	8,588	42,688
Corporate	28,580	67,248
	$37,168	$109,936

The decrease in short-term debt is due to 1993 system financing activity as previously discussed. EUA expects to repay the outstanding balances of indebtedness through internally generated funds, the issuance of additional common shares through its Dividend Reinvestment and Common Share Purchase Plan, and the possible issuance of additional EUA Cogenex Debt securities which, as noted above, would require further regulatory approval.

Energy Related Businesses

Net Earnings and Earnings Per Share Contributions of EUA's Energy Related Businesses:

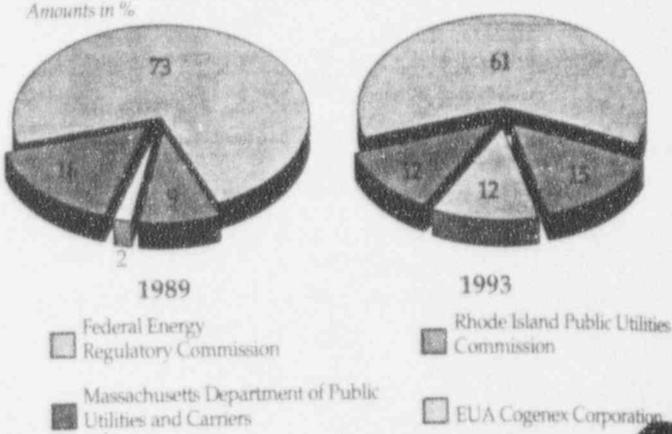
	1993		1992	
	Net Earnings (000's)	Earnings Per Share	Net Earnings (000's)	Earnings Per Share
EUA Cogenex	$3,536	$0.19	$2,839	$0.17
EUA Ocean State	5,258	0.29	7,043	0.41
EUA Energy Investment	(1,551)	(0.09)	(114)	(0.01)
Energy Related Business	$7,243	$0.39	$9,768	$0.57

EUA Cogenex: EUA Cogenex participates in energy conservation and cogeneration projects in 32 states and the District of Columbia. EUA Cogenex's contribution to earnings increased by 24.5% in 1993 due primarily to operations of its EUA Nova Division, acquired in December 1992, and increased business activity.

EUA Cogenex continues to grow its business strategically as evidenced by two recent acquisitions. In

Regulation - Percent of Revenues

Amounts in %



December 1993, EUA Cogenex completed its acquisition of Day Co., of Victor, N.Y. Renamed EUA Day and operating as a division of EUA Cogenex, the company is primarily engaged in the business of customization, installation and servicing of building temperature control systems for the purpose of energy conservation. The acquisition will enable EUA Cogenex to increase its market share in building control systems and provide customers with additional expertise in system customization and enhanced applications.

In January 1994, EUA Cogenex completed the acquisition of NEM of Brunswick, Me. NEM is an energy services and demand side management contracting company operating as a wholly-owned subsidiary of EUA Cogenex.

The acquisitions were accomplished by the exchange of common stock of Day Co. and NEM to EUA Cogenex for common shares of EUA.

EUA Cogenex revenues are still subject to the SEC requirement that it earn more than 50% of its revenues in the New England/New York area, not including revenues derived from development of qualifying cogeneration facilities and qualifying small power production facilities. To date, revenues have continued to grow within the New England/New York area so that they

have not limited EUA Cogenex's growth outside that area. For the year ended December 31, 1993, approximately 72% of EUA Cogenex's revenues subject to this restriction were generated from within the New England/New York area. The Day Co. and NEM acquisitions will provide additional revenues from the New England/New York area in 1994 and beyond. Nevertheless, EUA Cogenex is actively pursuing legislative action and may pursue regulatory action to mitigate any future negative impact that current geographic requirements may have on future revenues. If EUA Cogenex's endeavors are unsuccessful, revenues from outside the New England/New York area may be restricted.

EUA Ocean State: EUA Ocean State owns 29.9% of each of the partnerships which developed and operate Units I and II of OSP, twin 250-megawatt gas-fired generating units located in northern Rhode Island. Both units have provided a premium return since their respective in-service dates of December 31, 1990, and October 1, 1991. The decrease in EUA Ocean State's earnings contribution was due primarily to a decrease in the allowed rate of return on equity billed by the project, slightly lower performance bonuses in 1993 and a decrease in the rate base and investment base from which the project's rates are determined.

EUA Energy Investment: EUA Energy Investment was organized to seek out investments in energy related businesses. Prior to 1993 the company had been, for all intents and purposes, an inactive subsidiary of EUA. The $1.5 million loss in 1993 was related to the expensing of all of EUA Energy's initial investment in TransCapacity L.P. The partnership will develop and market a computer software system for the collection, compilation and distribution of information regarding natural gas pipeline capacity and capacity rights. The system developed by TransCapacity L.P. will allow customers to quickly sort and process the information supplied by gas pipelines in compliance with FERC Order 636.

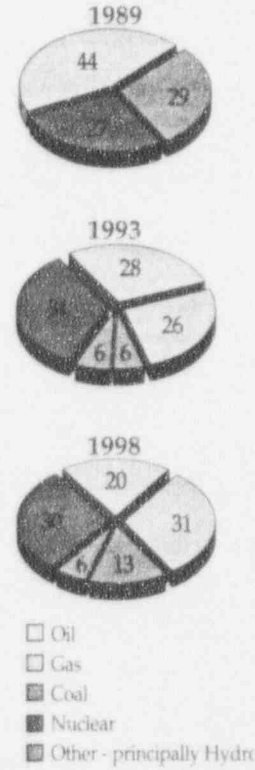
Under FERC Order 636, natural gas capacity rights information will no longer be proprietary and must be made accessible to the public in a non-discriminatory manner. It is anticipated that the system will be operational by June 1, 1994.

OPERATIONS

The EUA System's fuel mix continues to be diverse. Nuclear power supplied 34% of EUA's energy needs in 1993, matching its 1992 contribution and continuing as EUA's largest and lowest cost fuel source. Natural gas supplied 26% of EUA's energy requirements in 1993 down from the 29% of 1992. The system again increased its hydroelectric capacity in 1993 through Montaup's and Newport's 4.06% aggregate share in the Hydro Quebec Phase II energy agreement with the New England Power Pool. Hydroelectric facilities accounted for 6% of the System's energy in 1993.

FUEL MIX

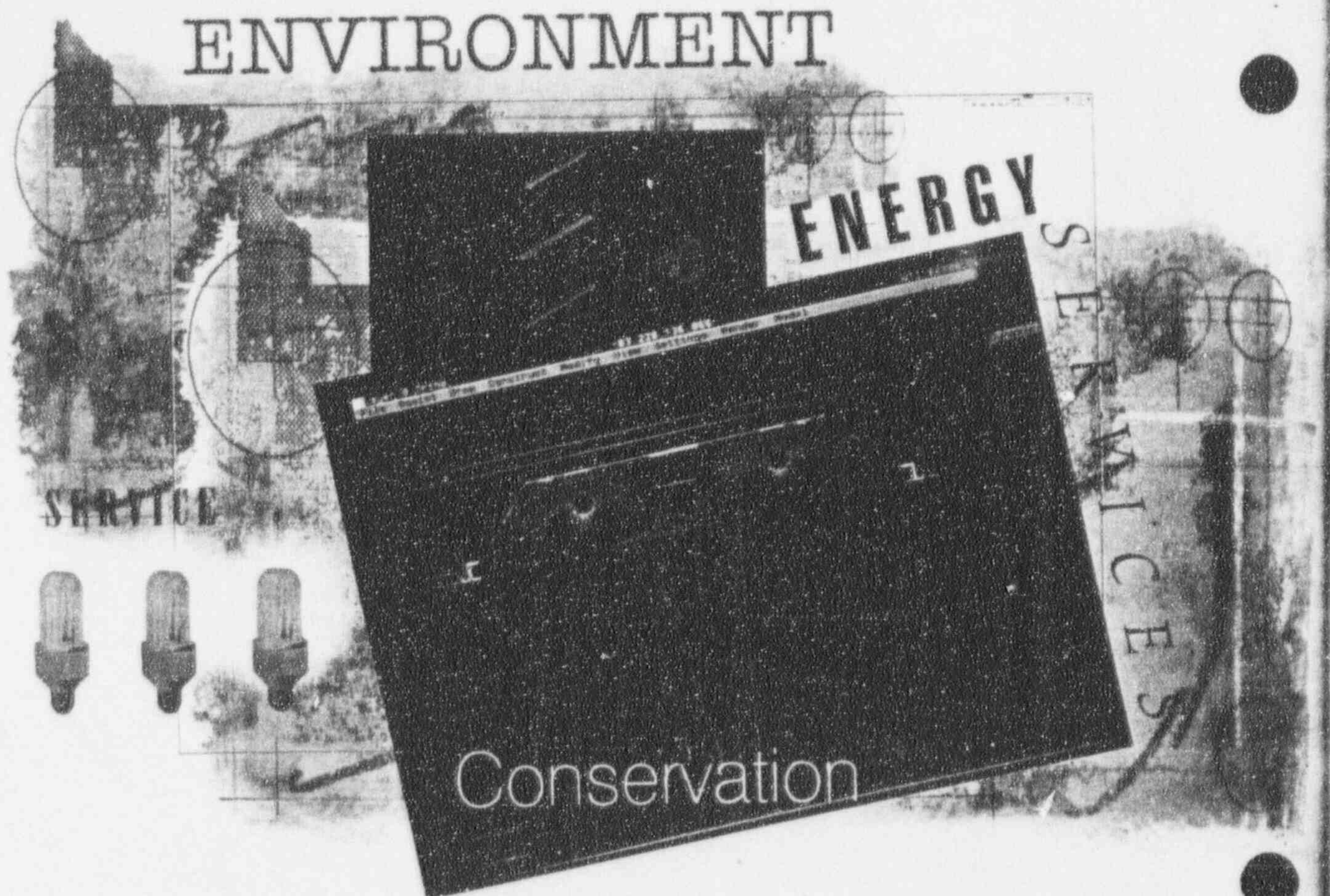
Amounts in %



Oil provided 28% of energy needs in 1993, up from its 13% contribution in 1992. This increase is due mainly to the unanticipated outages at Montaup's coal fired Somerset Units. As a result, coal supplied only 6% of our energy needs in 1993, down from 19% in 1992. EUA currently projects that gas will supply approximately 31% of its energy needs by 1998; nuclear, approximately 30%; coal, approximately 14%; and oil, approximately 19%. The balance will come from a combination of hydroelectric power and such non-traditional sources as cogeneration and independent power producers.

On January 25, 1994 Montaup announced that its 42-year-old, 69-mw Somerset Station Unit #5 had been placed in deactivated reserve. This unit had been out of service for the prior five months due to mechanical problems. Montaup has determined that the costs to repair the Unit and to bring it into compliance with Clean Air Act requirements would not be economical. Montaup's net plant investment in the unit was $6.4 million at December 31, 1993.

Current forecasts indicate that with a combination of owned generation, current long-term purchased power contracts, expected short-term purchased power opportunities and the EUA System's C&LM programs, no



additional capacity requirements will be needed through the year 1999.

Conservation And Load Management

The EUA System offers customers a comprehensive set of C&LM programs. These programs provide EUA with a flexible, cost effective resource option, while serving customers with valued cost control opportunities to develop and maintain a competitive advantage within our service territories. The programs also offer opportunities to EUA and our customers to comply with environmental standards and reduce air emissions.

During 1993, 23,272 customers participated in one or more of the EUA System C&LM programs, resulting in 38,309 megawatthours of annual energy savings. In addition, the programs delivered a reduction in customers' demand of 7,028 kilowatts in 1993 and provided the long-term benefits of reducing the need to invest in costly new generating facilities.

Environmental Matters

The federal Environmental Protection Agency (EPA), as well as state and local authorities, have jurisdiction over releases of pollutants into the environment. They have broad authority to set rules and regulations, including the required installation of pollution control devices and remedial actions. The EPA has updated its clean air standards regulating the emissions from utility power plants into the air, to take effect in 1995. Tests at Montaup's Somerset Station indicate that Unit #6 will be able to utilize lower sulfur coal than is already being burned to meet the 1995 air standards with only a minimal capital investment. Montaup determined that it would not be economical to repair Unit # 5 of the Somerset Station and has placed it in deactivated reserve. (See above).

In April 1992, the Northeast States for Coordinated Air Use Management (NESCAUM), an environmental advisory group for eight Northeast states including Massachusetts and Rhode Island, issued recommendations for nitrogen oxide (NOx) controls for existing utility boilers required to meet the ozone non-attainment requirements of the Clean Air Act Amendments of 1990 (Clean Air Act). The NESCAUM recommenda-

tions are more restrictive than the Clean Air Act requirements. The Massachusetts Department of Environmental Management has amended its regulations to require that Reasonably Available Control Technology be implemented at all stationary sources potentially emitting 50 tons or more per year of NOx. Rhode Island has not yet issued regulations to implement NOx reduction requirements. Montaup is in the process of reviewing compliance strategies. Any compliance strategy may require the implementation of additional pollution control technology as early as 1995. Montaup would seek recovery of pollution control expenditures through rates.

Because of the nature of the EUA System's business, various by-products and substances are produced or handled which are classified as hazardous under the rules and regulations promulgated by the EPA as well as state and local authorities. The EUA System generally provides for the disposal of such substances through licensed contractors, but these statutory provisions generally impose potential joint and several responsibility on the generators of the wastes for cleanup costs. Subsidiaries of EUA have been notified with respect to a number of sites where they may be responsible for such costs, including sites where they may have joint and several liability with other responsible parties. It is the policy of the EUA System companies to notify liability insurers and to initiate claims; at this time, however, no claims have been filed against any insurer and EUA is unable to predict whether liability, if any, will be assumed by, or can be enforced against, the insurance carrier in these matters.

As of December 31, 1993, the EUA System has incurred costs of approximately \$2.8 million in connection with these sites. Of this amount, approximately \$2.7 million relates to Blackstone. These amounts have been financed primarily by internally generated cash. Blackstone is currently amortizing substantially all of its incurred costs over a five-year period and recovering those costs in rates.

EUA estimates that additional costs ranging from \$2.0 million to \$9.2 million may be incurred at these sites through 1995 by its subsidiaries and the other responsible parties. Of this amount, approximately \$8.4 million relates to sites at which Blackstone is a potentially responsible party. Estimates beyond 1995 cannot be made since site studies, which are the basis of these estimates, have not been completed.

As a result of the recoverability of cleanup costs in rates and the uncertainty regarding both its estimated liability, as well as its potential contributions from insurance carriers and other responsible parties, EUA does not believe that the ultimate impact of the environmental costs will be material to the EUA System or to any individual subsidiary and thus no loss accrual has been made at this time.

A number of scientific studies in the past several years have examined the possibility of health effects from electric and magnetic fields (EMF) that are found everywhere there is electricity. While some of the studies have indicated there may be some association between exposure to EMF and health effects, many studies have indicated no direct association. In addition, the research to date has not conclusively established a direct causal relationship between EMF exposure and human health. Additional studies, which are intended to provide a better understanding of the subject, are continuing.

Some states have enacted regulations to limit the strength of magnetic fields at the edge of transmission line rights-of-way. Rhode Island has enacted a statute which authorizes and directs the Energy Facility Siting Board to establish rules and regulations governing construction of high voltage transmission lines of 69kv or more. Various bills are pending in the Massachusetts Legislature that would require certain disclosures about the potential health effects of EMF. Management cannot predict the ultimate outcome of the EMF issue.

Changes In Accounting Standards

The EUA System adopted FAS106, "Accounting for Post-Retirement Benefits Other Than Pensions," as of January 1, 1993. This standard establishes accounting and reporting standards for such post-retirement benefits as health care and life insurance. FAS106 further requires the accrual of the cost of such benefits during an employee's years of service and the recognition of the actuarially determined total post-retirement benefit obligations (Transition Obligation) earned by existing employees and retirees. Previously, EUA followed the "pay-as-you-go" methodology of accounting for such costs. EUA elected to recognize the Transition Obligation over a period of 20 years, as permitted by FAS106. The resultant annual expense, including amortization of the Transition Obligation and net of capitalized amounts, was approximately \$8.1 million in 1993. Regulatory decisions issued

in December 1992 permitted EUA's retail subsidiaries to recover through rates approximately $3.5 million of this amount in 1993. As a result of the December 1992 regulatory decisions, EUA's retail subsidiaries established a regulatory asset of approximately $1.5 million in 1993 due to the future recoverability of such amounts. Montaup was allowed to defer FAS106 related expenses through 1995 or until it filed for recovery of such amounts prior to that time. Accordingly approximately $1.4 million of FAS106 related expenses were deferred by Montaup in 1993. Montaup will request recovery of all of its FAS106 expenses, including amortization of deferred amounts in its March 1994 rate application. The EUA system has also established an irrevocable external Voluntary Employee Benefit Association Trust Fund as required by the aforementioned regulatory decisions. Contributions to the fund began in March 1993 and totaled approximately $6.0 million during 1993.

Effective January 1993, EUA adopted FASB Statement No. 109, "Accounting for Income Taxes" (FAS109), which essentially supersedes its Statement No. 96 (FAS96). As a result of the adoption of FAS96 in 1990, FAS109 resulted only in the reclassification of certain assets and liabilities and did not significantly impact EUA.

In November 1992, FASB issued Statement No. 112, "Employers' Accounting for Post-employment Benefits." EUA is required to adopt this standard no later than January 1, 1994. The estimated impact of this standard on EUA System is immaterial and therefore it is anticipated that no liability will be recorded.

OTHER

Montaup is recovering through rates its share of estimated decommissioning costs for the Millstone Unit 3 and Seabrook Unit 1 nuclear generating units. Montaup's share of the currently allowed estimated total costs to decommission Millstone Unit 3 is approximately $15.1 million in 1993 dollars and Seabrook Unit 1 is approximately $10.6 million in 1993 dollars. These figures are based on studies performed for the lead owners of the units. Montaup also pays into decommissioning reserves, pursuant to contractual arrangements, at other nuclear generating facilities in which it has an equity ownership interest or life-of-unit entitlement. Such expenses are currently recovered through rates.

In December 1992, Montaup commenced a declaratory judgment action in which it sought to have the Massachusetts Superior Court determine its rights under the Power Purchase Agreement between it and Aquidneck Power Limited Partnership (Aquidneck). Montaup sought a declaration that the Power Purchase Agreement was binding on the parties according to its terms. Aquidneck asserted, in effect, that Montaup had either an express or implied obligation to negotiate new terms and conditions to the Power Purchase Agreement.

In January 1994, a counterclaim by Aquidneck claimed certain breaches of the Power Purchase Agreement, including an alleged failure on the part of Montaup to renegotiate the terms and conditions of the Power Purchase Agreement. Also in January 1994, Aquidneck sought to join EUA and EUA Service Corporation as parties to the suit.

Montaup, EUA and EUA Service intend to defend the counterclaim vigorously and believe that Aquidneck's claims have no basis in law.

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CONSOLIDATED STATEMENT OF INCOME

Years Ended December 31, (In Thousands Except Common Shares and per Share Amounts)	1993	1992	1991
OPERATING REVENUES	$ 566,477	$ 541,964	$ 522,583
OPERATING EXPENSES:			
Fuel	85,218	96,767	99,075
Purchased Power-Demand	139,524	141,829	143,775
Other Operation	156,972	131,348	114,832
Maintenance	25,148	21,589	21,956
Depreciation and Amortization	44,722	42,824	41,759
Taxes - Other Than Income	24,468	23,785	22,486
Income Taxes	15,019	19,475	12,364
Total Operating Expenses	491,071	477,617	456,247
Operating Income	75,406	64,347	66,336
Equity in Earnings of Jointly Owned Companies	14,140	16,790	10,975
Allowance for Other Funds Used During Construction	379	549	616
Other Income (Deductions) - Net	3,898	6,184	(739)
Income Before Interest Charges	93,823	87,870	77,188
INTEREST CHARGES:			
Interest on Long-Term Debt	41,530	45,646	42,691
Amortization of Debt Expense and Premium - Net	1,904	1,184	1,108
Other Interest Expense	4,137	4,703	4,960
Allowance for Borrowed Funds Used During Construction (Credit)	(1,989)	(1,813)	(1,9[illegible]
Net Interest Charges	45,582	49,720	46,7[illegible]
Net Income	48,241	38,150	30,417
Preferred Dividends of Subsidiaries	3,310	4,039	4,157
Consolidated Net Earnings	$ 44,931	$ 34,111	$ 26,260
Average Common Shares Outstanding	18,391,147	17,039,224	16,608,090
Consolidated Earnings per Share	$ 2.44	$ 2.00	$ 1.58
Dividends Paid per Share	$ 1.42	$ 1.36	$ 1.45

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years Ended December 31, (In Thousands)	1993	1992	1991
CASH FLOW FROM OPERATING ACTIVITIES:			
Net Income	$ 48,241	$ 38,150	$ 30,417
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities:			
Depreciation and Amortization	50,492	47,492	49,800
Amortization of Nuclear Fuel	5,136	5,054	4,219
Deferred Taxes	11,099	(3,645)	12,228
Investment Tax Credit, Net	(1,279)	(1,452)	83
Allowance for Funds Used During Construction	(2,368)	(2,362)	(2,604)
Other - Net	13,010	22,175	(1,642)
Changes in Operating Assets and Liabilities:			
Accounts Receivable	(9,609)	6,572	(13,468)
Notes Receivable	(5,603)	2,181	(8,676)
Materials and Supplies	452	(629)	5,221
Accounts Payable	(1,885)	5,138	(7,665)
Taxes Accrued	3,382	1,610	4,491
Other - Net	(10,154)	(4,593)	3,290
Net Cash Provided from Operating Activities	100,914	115,691	75,694
CASH FLOW FROM INVESTING ACTIVITIES:			
Construction Expenditures	(60,767)	(55,736)	(57,570)
Increase in Other Investments	(13,244)	(17,205)	(39,888)
EUA Power Obligations Paid by EUA			(37,522)
EUA Power Settlement		(20,000)	
Net Cash Used in Investing Activities	(74,011)	(92,941)	(134,980)
CASH FLOW FROM FINANCING ACTIVITIES:			
Issuances:			
Common Shares	46,313	8,738	9,532
Long-Term Debt	245,000	50,000	66,000
Preferred Stock	30,000		
Redemptions:			
Long-Term Debt	(214,809)	(86,203)	(2,170)
Preferred Stock	(41,700)	(1,300)	(1,300)
Premium on Reacquisition and Financing Expenses	(14,956)	(3,783)	(942)
EUA Common Share Dividends Paid	(26,101)	(23,114)	(23,952)
Subsidiary Preferred Dividends Paid	(3,316)	(4,039)	(4,157)
Net (Decrease) Increase in Short-Term Debt	(72,768)	37,487	29,378
Net Cash (Used in) Provided from Financing Activities	(52,337)	(22,214)	72,389
NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS:	(25,434)	536	13,103
Cash and Temporary Cash Investments at Beginning of Year	29,614	29,078	15,975
Cash and Temporary Cash Investments at End of Year	$ 4,180	$ 29,614	$ 29,078
Cash Paid during the year for:			
Interest (Net of Amounts Capitalized)	$ 45,057	$ 47,132	$ 45,236
Income Taxes	$ 12,919	$ 897	$ 4,842

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

December 31, (In Thousands)	1993	1992
ASSETS		
Utility Plant and Other Investments:		
Utility Plant in Service	$ 1,016,453	$ 1,002,717
Less Accumulated Provisions for Depreciation and Amortization	296,995	274,725
Net Utility Plant in Service	719,458	727,992
Construction Work in Progress	8,728	4,943
Net Utility Plant	728,186	732,935
Non-utility Property - Net	99,791	87,276
Investments in Jointly Owned Companies	73,632	76,841
Other	51,282	38,492
Total Utility Plant and Other Investments	952,891	935,544
Current Assets:		
Cash and Temporary Cash Investments	4,180	29,614
Accounts Receivable:		
Customers, Net	57,473	54,408
Accrued Unbilled Revenues	10,481	9,624
Other	16,885	11,199
Notes Receivable	16,407	10,804
Materials and Supplies (at average cost):		
Fuel	6,411	7,286
Plant Materials and Operating Supplies	6,722	6,298
Other Current Assets	16,340	19,820
Total Current Assets	134,899	149,05[illegible]
Other Assets	115,347	118,723
Total Assets	$ 1,203,137	$ 1,203,320
LIABILITIES AND CAPITALIZATION		
Capitalization:		
Common Equity	$ 333,165	$ 266,855
Non-Redeemable Preferred Stock of Subsidiaries - Net	6,900	15,850
Redeemable Preferred Stock of Subsidiaries - Net	25,053	28,496
Long-Term Debt - Net	496,816	462,958
Total Capitalization	861,934	774,159
Current Liabilities:		
Notes Payable - Banks	37,168	109,936
Long-Term Debt Due Within One Year	5,415	9,943
Accounts Payable	36,111	37,996
Redeemable Preferred Stock Sinking Fund Requirement	50	1,450
Taxes Accrued	12,299	8,917
Interest Accrued	10,688	13,410
Other Current Liabilities	19,285	30,196
Total Current Liabilities	121,016	211,848
Other Liabilities	82,747	81,393
Accumulated Deferred Taxes	137,440	135,920
Commitments and Contingencies (Note K)		
Total Liabilities and Capitalization	$ 1,203,137	$ 1,203,320

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years Ended December 31, (In Thousands)	1993	1992	1991
Retained Earnings (Deficit) - Beginning of Year	$ 21,434	$ 11,053	$ (78,313)
Accounting Reorganization			80,035
Consolidated Net Earnings	44,931	34,111	26,260
Total	66,365	45,164	27,982
Dividends Paid - EUA Common Shares	26,101	23,114	16,316
Other	622	616	613
Retained Earnings - Accumulated since June 1991 Accounting Reorganization in which a deficit of $80,034,506 was eliminated.	$ 39,642	$ 21,434	$ 11,053

CONSOLIDATED STATEMENT OF EQUITY CAPITAL & PREFERRED STOCK

December 31, (Dollar Amounts In Thousands)	1993	1992
EASTERN UTILITIES ASSOCIATES:		
Common Shares:		
$5 par value 36,000,000 shares authorized, 19,032,598 shares outstanding in 1993 and 17,237,788 shares in 1992.	$ 95,163	$ 86,189
Other Paid-In Capital	202,182	161,590
Common Share Expense	(3,822)	(2,358)
Retained Earnings Accumulated since June 1991 Accounting Reorganization in which a deficit of $80,034,506 was eliminated.	39,642	21,434
Total Common Equity	333,165	266,855
CUMULATIVE PREFERRED STOCK OF SUBSIDIARIES:		
Non-Redeemable Preferred:		
Blackstone Valley Electric Company:		
4.25% $100 par value 35,000 shares (1)	3,500	3,500
5.60% $100 par value 25,000 shares (1)	2,500	2,500
Premium	129	129
Eastern Edison Company:		
4.64% $100 par value 60,000 shares (1)		6,000
8.32% $100 par value 30,000 shares (1)		3,000
Expense, Net of Premium		(50)
Newport Electric Corporation:		
3.75% $100 par value 7,689 shares (1)	769	769
Premium	2	2
Total Non-Redeemable Preferred Stock	6,900	15,850
Redeemable Preferred:		
Eastern Edison Company:		
9.00% $100 par value 126,000 shares (1)		12,600
9.80% $100 par value 200,000 shares (1)		20,000
6 ¾ % $100 par value 300,000 shares (2)	30,000	
Expense Net of Premium	(330)	(553)
Preferred Stock Redemption Costs	(4,846)	(2,472)
Sinking Fund Requirement Due Within One Year		(1,400)
Newport Electric Corporation:		
9.75% $100 par value 2,900 shares (1)	290	390
Expense	(11)	(14)
Sinking Fund Requirement Due Within One Year	(50)	(50)
Total Redeemable Preferred Stock	25,053	28,496
Total Preferred Stock of Subsidiaries	$ 31,953	$ 44,346

(1) Authorized and Outstanding.
(2) Authorized 400,000 shares. Outstanding 300,000 at December 31, 1993.

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF INDEBTEDNESS

December 31, (In Thousands)	1993	1992
EUA Service Corporation:		
10.2% Secured Notes due 2008	$ 15,600	$ 17,800
EUA Cogenex Corporation:		
7.22% Unsecured Notes due 1997	15,000	15,000
7.0% Unsecured Notes due 2000	50,000	
9.6% Unsecured Notes due 2001	20,000	20,000
10.56% Unsecured Notes due 2005	35,000	35,000
EUA Ocean State Corporation:		
9.59% Unsecured Notes due 2011	38,497	43,378
Blackstone Valley Electric Company:		
First Mortgage Bonds:		
9½% due 2004 (Series B)	15,000	15,000
10.35% due 2010 (Series C)	18,000	18,000
Variable Rate Demand Bonds due 2014 (1)	6,500	6,500
Eastern Edison Company		
First Mortgage and Collateral Trust Bonds:		
4½% due 1993		5,000
8.9% Secured Medium Term Notes due 1995	10,000	10,000
4⅞% due 1996	7,000	
6½% due 1997		7,000
10⅛% due 1997		35,000
5⅛% due 1998	20,000	
5¾% due 1998	40,000	
9⅞% due 1998		40,000
8¾% due 1999		5,000
7⅞% due 2002		8,000
7.78% Secured Medium Term Notes due 2002	35,000	35,000
6¾% due 2003	40,000	
6.35% due 2003	8,000	
8⅛% due 2003		10,000
9⅝% due 2016		55,000
8.0% due 2023	40,000	
Pollution Control Revenue Bonds:		
10⅛% due 2008		40,000
5⅞% due 2008	40,000	
Unsecured Medium Term Notes:		
9-9¼% due 1995 (Series A)	25,000	25,000
Newport Electric Corporation:		
First Mortgage Bonds:		
4¾% due 1994	1,000	1,000
11½% due 1997		1,400
10.0% due 1998		600
9.0% due 1999	1,400	1,400
9.8% due 1999	8,000	8,000
8.95% due 2001	5,200	5,850
Second Mortgage Bonds:		
8.5% due 1998	1,880	1,880
12.0% due 2011	6,045	6,045
Small Business Administration Loan:		
6.5% due 2005	975	1,046
Promissory Notes:		
12.0% due 1993		7
Unamortized (Discount) - Net	(866)	(5)
	502,231	47[illegible]01
Less Portion Due Within One Year	5,415	[illegible]3
Total Long-Term Debt - Net	$ 496,816	$ 462,958

(1) *Weighted average interest rate was 2.5% for 1993 and 3.2% for 1992.*

The accompanying notes are an integral part of the financial statements.

Notes To Consolidated Financial Statements

December 31, 1993, 1992 and 1991

(A) Summary Of Significant Accounting Policies:

Basis of Consolidation: The consolidated financial statements include the accounts of Eastern Utilities Associates (EUA) and all subsidiaries. In 1993 EUA consolidated the EUA Cogenex Corporation (EUA Cogenex) partnerships which had previously been accounted for as equity investments. The 1992 and 1991 financial statements have been restated to present these partnerships on a consolidated basis. The restatements do not materially change amounts previously reported. All material intercompany transactions between the consolidated subsidiaries have been eliminated.

System of Accounts: The accounts of EUA and its consolidated subsidiaries are maintained in accordance with the uniform system of accounts prescribed by the regulatory bodies having jurisdiction.

Jointly Owned Companies: Montaup Electric Company (Montaup) follows the equity method of accounting for its stock ownership investments in jointly owned companies including four regional nuclear generating companies. Montaup's investments in these nuclear generating companies range from 2.25% to 4.50%. Montaup is entitled to electricity produced from these facilities based on its ownership interests and is billed for its entitlement pursuant to contractual agreements which are approved by the Federal Energy Regulatory Commission (FERC). One of the four facilities is being decommissioned, but Montaup is required to pay, and has received FERC authorization to recover, its proportionate share of any unrecovered costs and costs incurred after the plant's retirement.

Montaup also has a stock ownership investment of 3.27% in each of two companies which own and operate certain transmission facilities between the Hydro Quebec electric system and New England.

EUA Ocean State Corporation's (EUA Ocean State) follows the equity method of accounting for its 29.9% partnership interest in the Ocean State Power Project.

Montaup's stock ownership investments and EUA Ocean State's investment in the Ocean State Power Project are included in "Investments in Jointly Owned Companies" on the Consolidated Balance Sheet.

Plant and Depreciation: Utility plant is stated at original cost. The cost of additions to utility plant includes contracted work, direct labor and material, allocable overhead, allowance for funds used during construction and indirect charges for engineering and supervision. For financial statement purposes, depreciation is computed on the straight-line method based on estimated useful lives of the various classes of property. On a consolidated basis, provisions for depreciation on utility plant were equivalent to a composite rate of approximately 3.4% in 1993 and 3.3% in both 1992 and 1991 based on the average depreciable property balances at the beginning and end of each year.

Non-utility property and equipment of EUA Cogenex is stated at original cost. For financial statement purposes, depreciation on office furniture and equipment and computer equipment is computed on the straight-line method based on estimated useful lives ranging from five to fifteen years. Project equipment is depreciated over the term of the applicable contracts or based on the estimated useful lives, whichever is shorter, ranging from five to fifteen years.

Allowance for Funds Used During Construction (AFUDC) and Capitalized Interest: AFUDC represents the estimated cost of borrowed and equity funds used to finance the EUA System's construction program. In accordance with regulatory accounting, AFUDC is capitalized as a cost of utility plant in the same manner as certain general and administrative costs. AFUDC is not an item of current cash income but is recovered over the service life of utility plant in the form of increased revenues collected as a result of higher depreciation expense. The combined rate used in calculating AFUDC was 9.5% in 1993, 10.8% in 1992 and 11.5% in 1991. The caption Allowance for Borrowed Funds Used During Construction also includes interest capitalized for non-regulated entities in accordance with Financial Accounting Standards Board (FASB) Statement No. 34.

Operating Revenues: Utility revenues are based on billing rates authorized by applicable federal and state regulatory commissions. Eastern Edison Company (Eastern Edison), Blackstone Valley Electric Company (Blackstone) and Newport Electric Corporation (Newport) (collectively, the Retail Subsidiaries) accrue the estimated amount of unbilled base rate revenues at the end of each month to match costs and revenues more closely. In addition they also record the difference between fuel costs incurred and fuel costs billed. Montaup recognizes revenues when billed. Montaup, Blackstone, and Newport also record revenues related to rate adjustment mechanisms.

EUA Cogenex's revenues are recognized based on financial arrangements established by each individual contract.

Under paid from savings contracts, revenues are recognized as energy savings are realized by customers. Revenue from the sale of energy equipment is recognized when the sale is complete. Revenue from sales-type lease contracts is recognized when savings to be realized by customers are verified. Energy Sales Contracts revenue is recognized as energy is provided to the customer. In circumstances in which material uncertainties exist as to contract profitability, cost recovery accounting is followed and revenues received under such contracts are first accounted for as recovery of costs to the extent incurred.

Federal Income Taxes: EUA and its subsidiaries generally reflect in income the estimated amount of taxes currently payable, and provide for deferred taxes on certain items subject to temporary timing differences to the extent permitted by the various regulatory agencies. EUA's rate-regulated subsidiaries generally defer recognition of annual investment tax credits and amortize these credits over the productive lives of the related assets.

Reclassifications: Certain prior period amounts on the financial statements have been reclassified to conform with current presentation.

Cash and Temporary Cash Investments: EUA considers all highly liquid investments and temporary cash investments with a maturity of three months or less when acquired to be cash equivalents.

(B) Accounting Reorganization:

On June 30, 1991, EUA effected an accounting reorganization to eliminate a retained earnings deficit resulting principally from EUA's 1990 write-off of its entire investment in EUA Power Corporation (EUA Power, now known as Great Bay Power Corporation). The accounting reorganization eliminated the accumulated deficit in retained earnings of $80,034,506 by transferring that amount from Other Paid-In Capital. The accounting reorganization did not involve any revaluation of assets or liabilities.

(C) Income Taxes:

EUA adopted FASB statement No. 109, "Accounting for Income Taxes" (FAS109) effective as of January 1, 1993. FAS109 superseded FASB Statement No. 96 (FAS96) which required recognition of deferred income taxes for temporary differences that are reported in different years for financial reporting and tax purposes using the liability method. Under the liability method, deferred tax liabilities or assets are computed using the tax rates that will be in effect when temporary differences reverse. Generally, for regulated companies, the change in tax rates may not be immediately recognized in operating results because of rate making treatment and provisions in the Tax Reform Act of 1986. The adoption of FAS109 had no impact on the results of operations for 1993. At December 31, 1993 total deferred tax assets for which no valuation allowance was deemed necessary were $41.8 million and total deferred tax liabilities were $179 million. Total deferred tax assets and liabilities are comprised as follows:

	Deferred Tax Assets (000)		Deferred Tax Liabilities (000)
Plant Related Differences	$19,574	Plant Related Differences	$159,370
Alternative Minimum Tax	9,507	Refinancing Costs	2,666
Litigation	1,218	Pensions	1,981
Bad Debts	2,274		
Pensions	1,497		
Other	7,776	Other	14,977
Total	$41,846	Total	$178,994

As of December 31, 1993 and 1992, EUA had recorded on its Consolidated Balance Sheet a regulatory liability to ratepayers of approximately $28.8 million and $35.9 million, respectively. These amounts primarily represent excess deferred income taxes resulting from the reduction in the federal income tax rate and also include deferred taxes provided on investment tax credits. Also at December 31, 1993 and 1992, a regulatory asset of approximately $46.7 million and $51.1 million, respectively, had been recorded, representing the cumulative amount of federal income taxes on temporary depreciation differences which were previously flowed through to ratepayers.

EUA has approximately $4.9 million of investment tax credit carryforwards which expire between the years 2001 and 2005.

EUA also has $9.2 million of alternative minimum tax credits which can be utilized to reduce the consolidated regular tax liability and have no expiration.

Under the terms of the December 1992 settlement agreement with EUA Power, EUA is entitled to utilize EUA Power's tax credits to reduce the 1993 Consolidated Tax Liability without compensation to EUA Power. Approximately $6.9 million of such credits were utilized in 1993 of which $4.9 million was charged against 1993 federal income tax expense.

Components of income tax expense for the year 1993, 1992 and 1991 are as follows:

(In Thousands)	1993	1992	1991
Federal:			
Current	$ 9,390	$ 7,761	$ 2,570
Deferred	4,204	9,977	6,235
Investment Tax Credit, Net	(1,197)	(1,371)	165
	12,397	16,367	8,970
State:			
Current	2,289	1,900	1,027
Deferred	333	1,208	2,367
	2,622	3,108	3,394
Charged to Operations	15,019	19,475	12,364
Charged to Other Income:			
Current	1,583	13,709	(1,245)
Deferred	6,562	(14,830)	3,626
Investment Tax Credit, Net	(5,049)	(82)	(82)
	3,096	(1,203)	2,299
Total	$ 18,115	$ 18,272	$ 14,663

Total income tax expense was different from the amounts computed by applying federal income tax statutory rates to book income subject to tax for the following reasons:

(In Thousands)	1993	1992	1991
Federal Income Tax Computed at Statutory Rates	$ 23,224	$ 19,184	$ 15,327
(Decrease) Increase in Tax From:			
Equity Component of AFUDC	(133)	(171)	(209)
Depreciation of Equity AFUDC	1,230	745	373
Amortization and Utilization of ITC	(6,295)	(1,338)	(1,340)
State taxes, net of federal income tax benefit	2,237	2,307	2,358
Tax impact of EUA's write-off of its investment in EUA Power		(1,999)	
Cost of Removal	(583)	(8)	(1,184)
Other	(1,565)	(448)	(662)
Total Income Tax Expense	$ 18,115	$ 18,272	$ 14,663

The provision for deferred taxes resulting from temporary differences comprises the following:

(In Thousands)	1993	1992	1991
Excess Tax Depreciation	$ 8,936	$ 9,656	$ 9,016
Estimated Unbilled Revenue	250	118	196
Unbilled Fuel Costs	129	277	(400)
Debt Component of AFUDC	(1,899)	(1,899)	(1,924)
Abandonment Losses		(622)	(706)
Capitalized Overheads	(64)	(371)	(744)
Effect of State and Local Taxes	321	1,498	2,367
Deferred Charges	350	(602)	(13)
Alternative Minimum Tax		545	
Net Operating Loss Carry forward		4,108	(2,955)
Pilgrim Refund	127	300	3,643
Provision for estimated tax liability resulting from the write-off of EUA's investment in EUA Power	4,046	(15,986)	
Deferred tax expense (benefits) associated with write-offs	(56)	(424)	2,995
Other-Net	(1,041)	(243)	753
Total	$ 11,099	$ (3,645)	$ 12,228

(D) Capital Stock:

The changes in the number of common shares outstanding and related increases in Other Paid-In Capital during the years ended December 31, 1993, 1992 and 1991 were as follows (dollars in thousands):

	Number of Common Shares Issued				
	Public Offering	Dividend Reinvestment and Employee Savings Plans	J.L. Day Co. Acquisition	Common Shares At Par	Other Paid-In Capital
1993	1,300,000	385,825	108,985	$8,974	$40,339
1992		406,726		2,034	6,704
1991		478,354		2,392	7,140

Pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (the 1935 Act), EUA System companies are prohibited from paying dividends out of capital or unearned surplus without prior authorization. In 1991, EUA requested and received authority from the 1935 Act to pay common share dividends for the second and third quarters of 1991 out of Other Paid-In Capital in an aggregate amount not exceeding $8 million. Dividends after the third quarter of 1991 are payable only from retained earnings accumulated subsequent to the June 1991 accounting reorganization.

Eastern Edison redeemed with available cash its 8.32% Series and 4.64% Series non-redeemable preferred stock on June 1, 1993 and December 1, 1993, respectively. In connection with these redemptions, Eastern Edison incurred premiums of approximately $106,000 related to the 8.32% Series and $179,000 related to the 4.64% Series. These amounts are included in Preferred Stock Redemption Costs on the Consolidated Statement of Equity Capital and Preferred Stock. Eastern Edison will seek recovery of these amounts in its next rate proceeding.

In the event of involuntary liquidation, the holders of non-redeemable preferred stock of the Retail Subsidiaries are entitled to $100 per share plus accrued dividends. In the event of voluntary liquidation, or if redeemed at the option of these companies, each share of the non-redeemable preferred stock is entitled to accrued dividends plus the following:

Company	Issue	Amount
Blackstone:	4.25% issue	$104.40
	5.60% issue	103.82
Newport:	3.75% issue	103.50

The preferred stock provisions of the Retail Companies place certain restrictions upon the payment of dividends on common stock by each company. At December 31, 1993 and 1992, each company was in excess of the minimum requirements which would make these restrictions effective.

(E) Redeemable Preferred Stock:

On June 1, 1993, Eastern Edison used available cash to redeem all of its 9.00% Series Preferred Stock. In connection with this redemption, a premium of approximately $850,500 was incurred and is included in Preferred Stock Redemption Costs on the Consolidated Statement of Equity Capital and Preferred Stock.

On August 11, 1993, Eastern Edison issued 300,000 shares of $100 par value, 6 5/8% Preferred Stock. The proceeds were used to redeem its outstanding 9.80% Series Preferred Stock and for other corporate purposes. In connection with the 9.80% Series redemption, Eastern Edison incurred a premium of approximately $1,352,000. This premium is also included in Preferred Stock Redemption Costs on the Consolidated Statement of Equity Capital and Preferred Stock. Eastern Edison will seek recovery of these premiums in its next rate proceeding.

Eastern Edison's 6 5/8% Preferred Stock issue is entitled to mandatory sinking funds sufficient to redeem 15,000 shares during each twelve-month period commencing September 1, 2003. The redemption price is $100 per share plus accrued dividends. All outstanding shares of the 6 5/8% issue will be subject to mandatory redemption on September 1, 2008 at a price of $100 per share plus accrued dividends.

Newport's 9.75% Preferred Stock issue is entitled to a mandatory sinking fund sufficient to redeem 500 shares during each twelve-month period until the year 2000, at which time any shares outstanding must be redeemed. The redemption price is $100 per share plus accrued dividends.

In the event of liquidation, the holders of Eastern Edison's 6 5/8% Preferred Stock are entitled to $100 per share plus accrued dividends.

In the event of involuntary liquidation, the holders of Newport's redeemable preferred stock are entitled to $100 per share plus accrued dividends. In the event of voluntary liquidation, or if redeemed at the option of Newport, the holders of the 9.75% issue are entitled to $104.88 per share plus accrued dividends prior to October 1, 1993 and $102.44 per share plus accrued dividends thereafter.

The aggregate amount of redeemable preferred stock sinking fund requirements for each of the five years following 1993 is $50,000.

(F) Long-Term Debt:

The various mortgage bond issues of Blackstone, Eastern Edison, and Newport are collateralized by substantially all of their utility plant. In addition, Eastern Edison's bonds are collateralized by securities of Montaup, which are wholly-owned by Eastern Edison, in the principal amount of approximately $259 million.

Blackstone's Variable Rate Demand Bonds are collateralized by an irrevocable letter of credit which expires on January 21, 1996. The letter of credit permits an extension of one year upon mutual agreement of the bank and Blackstone.

EUA Service Corporation's (EUA Service) 10.2% Secured Notes due 2008 are collateralized by certain real estate and property of the company.

In March 1993, Newport used available cash to redeem $600,000 of 10% and $1.4 million of 11 ⅛% First Mortgage Bonds (FMBs).

In May 1993, Eastern Edison issued $100 million of FMBs in the following denominations: (i) $20 million of 5 ⅝% Bonds due May 1, 1998; (ii) $40 million of 6 ⅝% Bonds due May 1, 2003; and (iii) $40 million of 8% Bonds due May 1, 2023. The proceeds were used to redeem Eastern Edison's $55 million of 9 ⅜%, $35 million of 10 ⅛% and $10 million of 8 ⅜% FMBs.

In June 1993, Eastern Edison used available cash to redeem $5 million of 8 ⅜% FMBs.

In July 1993, Eastern Edison issued $40 million of 5 ¾% FMBs, proceeds of which were used to redeem its $40 million of 9 ⅞% FMBs in September 1993.

Eastern Edison redeemed in mid-August 1993 its $40 million of 10 ⅛% Pollution Control Revenue Bonds with the proceeds from the July issuance of $40 million of 5 ⅞% Pollution Control Revenue Bonds.

In September 1993, Eastern Edison issued $8 million of 6.35% FMBs and $7 million of 4 ⅞% FMBs. The proceeds were used to redeem $8 million of 7 ⅞% FMBs and $7 million of 6 ½%.

In October Eastern Edison used available cash to redeem $5 million of 4 ½ % FMBs at maturity.

Also in October 1993, EUA Cogenex issued $50 million of 7% Unsecured Notes. Proceeds were used to retire all outstanding bank loans and repay a portion of its short-term loans to EUA.

On January 6, 1994, Newport issued $7.9 million of variable rate Electric Energy Facilities Revenue Refunding Bonds due 2011. The proceeds were used to redeem Second Mortgage Bonds of Newport in amounts of $6.0 million at 12% and $1.9 million at 8.5%.

The EUA System's aggregate amount of current cash sinking fund requirements and maturities of long-term debt, (excluding amounts that may be satisfied by available property additions) for each of the five years following 1993 are: $5,416,000 in 1994, $41,721,000 in 1995, $19,626,000 in 1996, $27,631,000 in 1997 and $73,916,000 in 1998.

(G) Fair Value Of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate:

Cash and Temporary Cash Investments: The carrying amount approximates fair value because of the short-term maturity of these instruments.

Preferred Stock and Long-Term Debt of Subsidiaries: The fair value of the System's redeemable preferred stock and long-term debt were based on quoted market prices for such securities at December 31, 1993.

The estimated fair values of the System's financial instruments at December 31, 1993 are as follows (dollars in thousands):

	Carrying Amount	Fair Value
Cash and Temporary Cash Investments	$4,180	$4,180
Redeemable Preferred Stock	30,290	31,265
Long-Term Debt	503,097	521,583

(H) Lines Of Credit:

EUA System companies maintain short-term lines of credit with various banks aggregating approximately $140 million. At December 31, 1993, unused short-term lines of credit were approximately $103 million. In accordance with informal agreements with the various banks, commitment fees are required to maintain certain lines of credit.

(I) Jointly Owned Facilities:

At December 31, 1993, in addition to the stock ownership interests discussed in Note A, Summary of Significant Accounting Policies - Jointly Owned Companies, Montaup and Newport had direct ownership interests in the following electric generating facilities (dollars in thousands):

	Percent Owned	Utility Plant in Service	Accumulated Provision For Depreciation and Amortization	Net Utility Plant in Service	Construction Work in Progress
Montaup:					
Canal Unit 2	50.00%	$ 67,000	$40,142	$26,858	$873
Wyman Unit 4	1.96%	4,020	1,803	2,217	11
Seabrook Unit 1	2.90%	207,898	15,676	192,222	1,480
Millstone Unit 3	4.01%	183,938	33,491	150,447	486
Newport:					
Wyman Unit 4	0.67%	1,311	603	708	–

The foregoing amounts represent Montaup's and Newport's interest in each facility, including nuclear fuel where appropriate, and are included on the like-captioned lines on the Consolidated Balance Sheet. At December 31, 1993, Montaup's total net investment in nuclear fuel of the Seabrook and Millstone Units amounted to $5.7 million and $2.8 million, respectively. Montaup's and Newport's shares of related operating and maintenance expenses with respect to units reflected in the table above are included in the corresponding operating expenses.

(J) Financial Information By Business Segments:

The Core Electric Business includes results of the System's electric utility operations of Blackstone, Eastern Edison, Newport and Montaup.

Energy Related Business includes results of our diversified energy related subsidiaries, EUA Cogenex, EUA Ocean State and EUA Energy Investment Corporation (EUA Energy).

Corporate results include the operations of EUA Service and EUA Parent.

(Dollars in Thousands)	Operating Revenues	Pre-Tax Operating Income	Income Taxes	Depreciation and Amortization	Cash Construction Expenditures	Equity in Subsidiary Earnings
Year Ended December 31, 1993						
Core Electric	$ 499,565	$ 84,654	$ 18,443	$ 34,035	$ 31,928	$ 1,750
Energy Related	66,912	6,690	(3,523)	10,031	28,459	12,390
Corporate	–	(919)	99	656	380	–
Total	$ 566,477	$ 90,425	$ 15,019	$ 44,722	$ 60,767	$ 14,140
Year Ended December 31, 1992						
Core Electric	$ 497,810	$ 80,324	$17,869	$ 33,003	$ 21,849	$ 1,953
Energy Related	44,154	6,792	2,096	8,712	32,563	14,837
Corporate	–	(3,294)	(490)	1,109	1,324	–
Total	$ 541,964	$ 83,822	$19,475	$ 42,824	$ 55,736	$ 16,790
Year Ended December 31, 1991						
Core Electric	$ 492,855	$ 73,366	$11,743	$ 32,339	$ 29,443	$ 2,011
Energy Related	29,728	5,204	571	8,338	27,785	8,964
Corporate	–	130	50	1,082	342	–
Total	$ 522,583	$ 78,700	$12,364	$ 41,759	$ 57,570	$ 10,975

	December 31, 1993	1992
Total Plant and Other Investments		
Core Electric	$ 723,664	$ 727,623
Energy Related	208,457	186,187
Corporate	20,770	21,734
Total Plant and Other Investments	952,891	935,544
Other Assets		
Core Electric	188,611	219,294
Energy Related	43,842	30,104
Corporate	17,793	1[illegible]
Total Other Assets	250,246	26[illegible]
Total Assets	$1,203,137	$ 1,203,320

(K) Commitments And Contingencies:

Nuclear Power Issues: Joint owners of nuclear projects are subject to the risk that one of their number may be unable or unwilling to finance its share of the project's costs, thus jeopardizing continuation of the project. On February 28, 1991, Great Bay Power Corporation (formerly known as EUA Power Corporation) a 12.13% owner of the Seabrook nuclear project, filed for protection under Chapter 11 of the Federal Bankruptcy Code. On March 5, 1993, the United States Bankruptcy Court for the District of New Hampshire (Bankruptcy Court) confirmed the fifth amended plan of reorganization as filed by the officially appointed committee representing the holders of Great Bay Power's outstanding secured notes (Bondholders Committee). The plan was subject to securing a financing facility in an amount sufficient to cover projected cash operating shortfalls through December 1995.

On February 2, 1994, the Bondholders Committee announced that it accepted a plan of reorganization financing proposal which provided for a $35 million equity investment in exchange for 60% of the equity of the reorganized Great Bay Power. A modified plan of reorganization filed by the Bondholders Committee with the Bankruptcy Court awaits approval. The modified plan also requires the approval of various regulatory agencies including the Nuclear Regulatory Commission (NRC).

In addition to its 2.9% ownership interest in Seabrook Unit 1, Montaup also has a 2.9% ownership interest in Seabrook Unit 2. On November 6, 1986, the joint owners of Seabrook, recognizing that Seabrook Unit 2 had been cancelled, voted to dispose of the Unit. Plans regarding disposition of Seabrook Unit 2 are still under consideration, but have not been finalized and approved. Montaup is unable, therefore, to estimate the costs for which it would be responsible in connection with the disposition of Seabrook Unit 2. Montaup must pay monthly charges with respect to Seabrook Unit 2 in order to preserve and protect its components and various warranties. These costs are currently being recovered in rates.

Nuclear Fuel Disposal and Nuclear Plant Decommissioning Costs: The Nuclear Waste Policy Act of 1982 (NWPA) establishes that the federal government is responsible for the disposal of spent nuclear fuel and obligates the Department of Energy (DOE) to design, license, build and operate a permanent repository for high level radioactive wastes and spent nuclear fuel. NWPA specifies that DOE provide for the disposal of the waste and spent fuel starting in 1998. DOE does not expect to achieve this date. As an interim strategy, DOE is considering making available other federal government sites to temporarily accommodate those firms that have depleted their own on-site spent nuclear fuel storage capacity. The DOE anticipates that a permanent disposal site for spent fuel will be ready to accept fuel for storage or disposal on or before 2010. However, the NRC, which must license the site, has stated only that a permanent repository will become available by the year 2025. Millstone Unit 3 management has indicated it has sufficient on-site storage facilities to accommodate high level wastes and spent fuel for the projected life of the unit. No significant expenditures are projected for the foreseeable future. At Seabrook there is on-site storage capacity which, with minimal capital expenditures, should be sufficient for twenty years, or to the year 2010. No near-term capital expenditures are anticipated to accommodate an increase in storage requirements after 2010. Montaup is required to pay a fee based on its share of the generation from Millstone Unit 3 and Seabrook Unit 1. Montaup is recovering these fees through its fuel adjustment clause.

Also, Montaup is recovering through rates its share of estimated decommissioning costs for Millstone Unit 3 and Seabrook Unit 1. Montaup's share of the current estimate of total costs to decommission Millstone Unit 3 is $15.1 million in 1993 dollars, and Seabrook Unit 1 is $10.6 million in 1993 dollars. These figures are based on studies performed for the lead owners of the plants. Montaup also pays into decommissioning reserves pursuant to contractual arrangements with other nuclear generating facilities in which it has an equity ownership interest or life of the unit entitlement. Such expenses are currently recoverable through rates.

Shareholder Proceeding: The Superior Court of The Commonwealth of Massachusetts, in approving a settlement agreement in connection with a class action suit filed on behalf of certain EUA shareholders in Superior Court naming EUA and certain current and former Trustees of EUA as defendants, permitted a former shareholder of approximately 540,000 shares to exclude himself from the plaintiff class. On February 11, 1992 that former shareholder filed a suit against EUA and three officers of EUA in the Federal District Court of Massachusetts alleging fraudulent and negligent misrepresentations and violations of Rule 10b-5 under the Securities Exchange Act in connection with statements made regarding the business

prospects for EUA Power and the portion of EUA's common share dividends attributable to AFUDC from EUA Power. The suit has been dismissed with respect to two of the officers. EUA and the officer named in the Federal District Court suit deny all allegations of liability and all of the claims and contentions alleged by the former shareholder, and are vigorously contesting the suit. Discovery has proceeded through 1993 and the deadline for discovery has been extended until April 30, 1994. EUA believes that the outcome of this litigation will not have a material impact on its financial position.

Pensions: The EUA System companies' retirement plans are non-contributory defined benefit pension plans covering substantially all of their employees. Regular plan benefits are based on years of service and average compensation over the four years prior to retirement or in the case of the supplemental retirement plan for certain officers of the EUA System, benefits are based on compensation at retirement date. It is the EUA System's policy to fund the regular plan on a current basis in amounts determined to meet the funding standards established by the Employee Retirement Income Security Act of 1974.

Net pension (income) expense for the regular plan for 1993, 1992 and 1991 included the following components (dollars in thousands):

	1993	1992	1991
Service cost-benefits earned during the period	$ 2,567	$ 2,395	$ 2,169
Interest cost on projected benefit obligations	8,761	8,050	7,408
Actual return on assets	(18,005)	(7,971)	(22,510)
Net amortization and deferrals	6,795	(2,683)	12,211
Net periodic pension expense (income)	$ 118	$ (209)	$ (722)

Assumptions used to determine pension costs:			
Discount Rate	8.75%	8.75%	8.75%
Compensation Increase Rate	6.00%	6.00%	6.00%
Long-Term Return on Assets	10.00%	10.00%	10.00%

The following table sets forth the actuarial present value of benefit obligations and funded status at December 31, 1993, 1992 and 1991 (in thousands):

	1993	1992	1991
Accumulated benefit obligations			
Vested	$ 101,279	$ 81,466	$ 73,404
Non-vested	358	291	256
Total	$ 101,637	$ 81,757	$ 73,660
Projected benefit obligations	$ (121,082)	$ (99,862)	$ (90,379)
Plan assets at fair value, primarily stocks and bonds	130,040	117,373	114,391
Less: Unrecognized net gain on assets	(11,689)	(20,562)	(23,994)
Unamortized net assets at January 1	5,944	6,383	3,105
Net pension assets	$ 3,213	$ 3,332	$ 3,123

The assumptions used to determine pension costs changed effective January 1, 1994 to 7.25%, 4.75% and 9.50% for the discount rate, compensation increase rate and expected long-term return on assets, respectively. These rates were used to calculate the plans funded status at December 31, 1993.

All benefits provided under the supplemental plan are unfunded and any payments to plan participants are made by EUA. As of December 31, 1993 approximately $2.1 million was included in accrued expenses and other liabilities for this plan. For the years ended December 31, 1993, 1992 and 1991 expenses related to the supplemental plan were $2.3 million, $0.3 million and $0.2 million, respectively.

Post-Retirement Benefits: Retired employees are entitled to participate in health care and life insurance benefit plans. Health care benefits are subject to deductibles and other limitations. Health care and life insurance benefits are partially funded by EUA System companies for all qualified employees.

The EUA System adopted FAS106, "Accounting for Post-Retirement Benefits Other Than Pensions," as of January 1, 1993. This standard establishes accounting and reporting standards for such post-retirement benefits as health care and life insurance. FAS106 further requires the accrual of the cost of such benefits during an employee's years of service and the recognition of the actuarially determined total post-retirement benefit obligations (Transition Obligation) earned by existing employees and retirees. EUA elected to recognize the Transition Obligation over a period of 20 years, as permitted by FAS106. The resultant annual expense, including amortization of the Transition Obligation and net of capitalized amounts, was approxi-

mately $8.1 million in 1993. Regulatory decisions issued in December 1992 permit EUA's retail subsidiaries to recover through rates approximately $3.5 million of this amount in 1993. As a result of the December 1992 regulatory decisions, EUA's retail subsidiaries established a regulatory asset of approximately $1.5 million in 1993 due to the future recoverability of such amounts. Montaup was allowed to defer FAS106-related expenses through 1995 or until it filed for recovery of such amounts prior to that time. Accordingly approximately $1.4 million of FAS106-related expenses were deferred by Montaup in 1993. Montaup has requested recovery of all of its FAS106 expenses including amortization of deferred amounts in its 1994 rate application.

The total cost of post-retirement benefits other than pensions for 1993 includes the following components (in thousands):

	1993
Service cost	$ 1,337
Interest cost	5,983
Actual return on plan assets	(68)
Amortization of transition obligation	3,429
Other amortizations & deferrals -net	(60)
Total post-retirement benefit cost	$ 10,621
Assumptions:	
Discount rate	8.75%
Health care cost trend rate —near-term	13%
—long-term	6.25%
Salary increase rate	6.00%
Rate of return on plan assets —union	8.50%
—non-union	5.50%

Reconciliation of funded status:

	1993
Accumulated post-retirement benefit obligation (APBO):	
Retirees	$ (38,008)
Active employees fully eligible for benefits	(15,324)
Other active employees	(25,357)
Total	$ (78,689)
Fair value of assets, primarily notes and bonds	3,522
Unrecognized transition obligation	65,147
Unrecognized prior service cost	-
Unrecognized net loss (gain)	5,368
(Accrued)/prepaid post-retirement benefit cost	$ (4,652)

The assumptions used to determine post-retirement benefit costs were changed effective January 1, 1994 to 7.25%, 13.0% and 5.0% for the discount rate, near-term health care cost trend and long-term health care cost trend, respectively. These assumptions were used to calculate the funded status of Post-Retirement benefits at December 31, 1993.

Increasing the assumed health care cost trend rate by 1% each year would increase the total post-retirement benefit cost for 1993 by $1.1 million and increase the total accumulated post-retirement benefit obligation by $10.8 million.

Prior to 1993 the EUA System followed the "pay-as-you-go" methodology for accounting for post retirement benefits other than pensions. The costs of the benefits, which amounted to $2,367,000 in 1992 and $1,872,000 in 1991, were charged to expense.

The EUA System, has also established an irrevocable external Voluntary Employee Benefit Association Trust Fund as required by the aforementioned regulatory decisions. Contributions to the fund commenced in March 1993 and totaled approximately $6.0 million during 1993.

Post-Employment Benefits: In November 1992, FASB issued Statement No. 112, "Employers' Accounting for Post-employment Benefits". EUA is required to adopt this standard no later than January 1, 1994. The estimated impact of this standard on the EUA System is immaterial and therefore it is anticipated that no liability will be recorded.

Long-Term Purchased Power Contracts: The EUA System is committed under long-term purchased power contracts, expiring on various dates through September 2021, to pay demand charges whether or not energy is received. Under terms in effect at December 31, 1993, the aggregate annual minimum commitments for such contracts are approximately $139 million in 1994, $136 million in 1995 and 1996, $133 million in 1997, $137 million in 1998 and will aggregate $1.6 billion for the ensuing years. In addition, the EUA System is required to pay additional amounts depending on the actual amount of energy received under such contracts. The demand costs associated with these contracts are reflected as Purchased Power-Demand on the Consolidated Statement of Income. Such costs are recoverable through rates.

Construction and Energy Related Investments: The EUA System's cash construction requirements are estimated at $84.0 million for the year 1994 and $342.7 million for the years 1995 through 1998. This includes estimated construction expenditures of EUA Cogenex of $42.4 million for 1994 and $197.5 million for the years 1995 through 1998.

In addition, energy related investments of EUA Cogenex are estimated to be $11.3 million for 1994 and aggregate $40.0 million for the years 1995 through 1998.

Environmental Matters: The Comprehensive Environmental Response, Compensation Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, and certain similar state statutes authorize various governmental authorities to seek court orders compelling responsible parties to take cleanup action at disposal sites which have been determined by such governmental authorities to present an imminent and substantial danger to the public and to the environment because of an actual or threatened release of hazardous substances. Because of the nature of the EUA System's business, various by-products and substances are produced or handled which are classified as hazardous under the rules and regulations promulgated by the EPA as well as state and local authorities. The EUA System generally provides for the disposal of such substances through licensed contractors, but these statutory provisions generally impose potential joint and several responsibility on the generators of the wastes for cleanup costs. Subsidiaries of EUA have been notified with respect to a number of sites where they may be responsible for such costs, including sites where they may have joint and several liability with other responsible parties. It is the policy of the EUA System companies to notify liability insurers and to initiate claims; at this time, however, no claims have been filed against any insurer and EUA is unable to predict whether liability, if any, will be assumed by, or can be enforced against, the insurance carrier in these matters.

As of December 31, 1993, the EUA System had incurred costs of approximately $2.8 million in connection with these sites. Of this amount, approximately $2.7 million relates to Blackstone. These amounts have been financed primarily by internally generated cash. Blackstone is currently amortizing substantially all of its incurred costs over a five-year period, and recovering those costs in rates.

EUA estimates that additional costs ranging from $2.0 million to $9.2 million may be incurred at these sites through 1995 by its subsidiaries and the other responsible parties. Of this amount, approximately $8.4 million relates to sites at which Blackstone is a potentially responsible party. Estimates beyond 1995 cannot be made since site studies, which are the basis of these estimates, have not been completed.

As a result of the recoverability of cleanup costs in rates and the uncertainty regarding both its estimated liability, as well as its potential contributions from insurance carriers and other responsible parties, EUA does not believe that the ultimate impact of the environmental costs will be material to the EUA System or to any individual subsidiary and thus no loss accrual has been made.

The Clean Air Act Amendments of 1990 (Clean Air Act) created new regulatory programs and generally updated and strengthened air pollution control laws. These amendments will expand the regulatory role of the United States Environmental Protection Agency (EPA) regarding emissions from electric generating facilities and a host of other sources. EUA System generating facilities will most probably be first affected in 1995, when EPA regulations will take effect for facilities owned by the EUA System. Tests at Montaup's coal-fired Somerset Unit #6 indicate it will be able to utilize lower sulfur coal than is already being burned to meet the 1995 air standards with only a minimal capital investment. Montaup determined that it would not be economical to repair Unit #5 of the Somerset Station and therefore has placed it in deactivated reserve. EUA does not anticipate the impact from the Amendments to be material to the financial position of the EUA System.

In April 1992, the Northeast States for Coordinated Air Use Management (NESCAUM), an environmental advisory group for eight Northeast states including Massachusetts and Rhode Island, issued recommendations for nitrogen oxide (NOx) controls for existing utility boilers required to meet the ozone non-attainment requirements of the Clean Air Act. The NESCAUM recommendations are more restrictive than the Clean Air Act requirements. The Massachusetts Department of Environmental Management has amended its regulations to require that Reasonably Available Control Technology be implemented at all stationary sources potentially emitting 50 tons or more per year of NOx. Rhode Island has not yet issued regulations to implement NOx reduction requirements. Montaup is in the process of reviewing compliance strategies. Any compliance strategy may require the implementation of additional pollution control technology as early as 1995. Montaup would seek recovery of pollution control expenditures through rates.

A number of scientific studies in the past several years have examined the possibility of health effects from elec-

tric and magnetic fields (EMF) that are found everywhere there is electricity. While some of the studies have indicated there may be some association between exposure to EMF and health effects, many studies have indicated no direct association. In addition, the research to date has not conclusively established a direct causal relationship between EMF exposure and human health. Additional studies, which are intended to provide a better understanding of the subject, are continuing.

Some states have enacted regulations to limit the strength of magnetic fields at the edge of transmission line rights-of-way. Rhode Island has enacted a statute which authorizes and directs the Energy Facility Siting Board to establish rules and regulations governing construction of high voltage transmission lines of 69kv or more. Various bills are pending in the Massachusetts Legislature that would require certain disclosures about the potential health effects of EMF. Management cannot predict the ultimate outcome of the EMF issue.

Guarantee of Financial Obligations: EUA has guaranteed or entered into equity maintenance agreements in connection with certain obligations of its subsidiaries. EUA has guaranteed the repayment of EUA Cogenex's $35 million 10.56% unsecured long-term notes due 2005 and EUA Ocean State's $38.6 million 9.59% unsecured long-term notes due 2011. In addition, EUA has entered into equity maintenance agreements in connection with the issuance of EUA Service's 10.2% Secured Notes and EUA Cogenex's 7.22% and 9.6% Unsecured Notes.

Under the December 1992 settlement agreement with EUA Power, EUA reaffirmed its guarantee of up to $10 million of EUA Power's share of the decommissioning costs of Seabrook Unit 1 and any costs of cancellation of Unit 1 or Unit 2. EUA guaranteed this obligation in 1990 in order to secure the release to EUA Power of a $10 million fund established by EUA Power at the time EUA Power acquired its Seabrook interest. EUA has not provided a reserve for this guarantee because management believes that it is unlikely that EUA will ever be required to honor the guarantee.

Montaup is a 3.27% equity participant in two companies which own and operate transmission facilities interconnecting New England and the Hydro Quebec system in Canada. Montaup has guaranteed approximately $6.0 million of the outstanding debt of these two companies. In addition, Montaup and Newport have minimum rental commitments which total approximately $14.3 million and $1.8 million, respectively under a noncancelable transmission facilities support agreement for years subsequent to 1993.

Other: In December 1992, Montaup commenced a declaratory judgment action in which it sought to have the Massachusetts Superior Court determine its rights under the Power Purchase Agreement between it and Aquidneck Power Limited Partnership (Aquidneck). Montaup sought a declaration that the Power Purchase Agreement was binding on the parties according to its terms. Aquidneck asserted that Montaup had either an express or implied obligation to negotiate new terms and conditions to the Power Purchase Agreement. Specifically, the defendants sought to amend, through negotiations, certain milestone events to which they were bound in the Power Purchase Agreement as written. Aquidneck failed to meet the first milestone of January 1, 1993. Accordingly, on January 5, 1993, Montaup exercised its rights to terminate the Power Purchase Agreement effective immediately.

In January 1994 a counterclaim by Aquidneck claimed certain breaches of the Power Purchase Agreement, including an alleged failure on the part of Montaup to renegotiate the terms and conditions of the Power Purchase Agreement relating to the first milestone event. Also in January 1994, Aquidneck sought to join EUA and EUA Service as parties to the suit.

Aquidneck apparently claims $11 million of damages on the theory that EUA can "avoid an approximately $11 million obligation to purchase capacity and power which it does not currently need." Aquidneck seeks treble damages claiming Montaup, EUA and EUA Service violated state laws willfully and knowingly.

Montaup, EUA and EUA Service intend to defend the counterclaim vigorously and believe that Aquidneck's claims have no basis in law.

Report Of Independent Accountants

To the Trustees and Shareholders of
Eastern Utilities Associates

We have audited the accompanying consolidated balance sheets and consolidated statements of equity capital and preferred stock and indebtedness of Eastern Utilities Associates and subsidiaries (the Company) as of December 31, 1993 and 1992, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1993. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 1993 and 1992, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

Coopers + Lybrand

Boston, Massachusetts
March 4, 1994

Report Of Management

The management of Eastern Utilities Associates is responsible for the consolidated financial statements and related information included in this annual report. The financial statements are prepared in accordance with generally accepted accounting principles and include amounts based on the best estimates and judgments of management, giving appropriate consideration to materiality. Financial information included elsewhere in this annual report is consistent with the financial statements.

The EUA System maintains an accounting system and related internal controls which are designed to provide reasonable assurances as to the reliability of financial records and the protection of assets. The system's staff of internal auditors conducts reviews to maintain the effectiveness of internal control procedures.

Coopers & Lybrand, an independent accounting firm, is engaged by EUA to audit and express an opinion on our financial statements. Their audit includes a review of internal controls to the extent required by generally accepted auditing standards for such audit.

The Audit Committee of the Board of Trustees, which consists solely of outside Trustees, meets with management, internal auditors and Coopers & Lybrand to discuss auditing, internal controls and financial reporting matters. The internal auditors and Coopers & Lybrand have free access to the Audit Committee without management present.

Quarterly Financial And Common Share Information (Unaudited)

(Thousands of Dollars, Except Per Share and Share Price Amounts)

	Operating Revenues(1)	Operating Income (1)	Net Income	Consolidated Net Earnings	Earnings per Average Common Share (2)	Dividends Paid Per Common Share	Common Share Market Price High	Common Share Market Price Low
FOR THE QUARTERS ENDED 1993:								
December 31	$ 146,941	$21,372	$ 10,282	$ 9,652	$ 0.51	$ 0.36	29¾	26½
September 30	156,238	21,439	14,719	13,913	0.74	0.36	29⅞	28¼
June 30	125,596	12,896	9,999	9,119	0.49	0.36	28¾	25⅞
March 31	137,702	19,699	13,241	12,247	0.71	0.34	27⅞	23⅜
FOR THE QUARTERS ENDED 1992:								
December 31	$ 139,976	$ 9,703(3)	$ 8,177	$ 7,183	$ 0.42	$ 0.34	25¼	22½
September 30	134,542	17,392	11,087	10,090	0.59	0.34	24⅛	22⅜
June 30	126,353	16,593	7,439	6,414	0.38	0.34	23½	20⅞
March 31	141,093	20,659	11,447	10,424	0.62	0.34	21¾	20⅜

(1) Restated to reflect consolidation of EUA Cogenex partnerships previously reflected as equity investments.

(2) The sum of the quarterly amounts may not equal annual earnings per average common share due to change in shares outstanding.

(3) Operating Income for the fourth quarter of 1992 was impacted by the recognition of certain non-recurring operating expenses related to inventory obsolescence, storm damage costs not recovered in rates and legal expenses related to litigation activities. A corresponding increase in Other Income (Deductions) – Net resulting from the reduction of previously established reserves for matters in litigation, the favorable resolution of which was reached in 1992, offset this impact.

CONSOLIDATED OPERATING AND FINANCIAL STATISTICS (1)

Years Ended December 31,	1993	1992	1991	1990	1989	1988	1983
ENERGY GENERATED AND PURCHASED *(millions of kwh)*:							
Generated							
- by Somerset Station	319	936	957	985	1,296	1,190	1,123
- by Nuclear Units	1,033	1,050	1,109	1,635	956	472	1,019
- by Jointly-Owned Units	1,809	2,105	2,053	1,793	2,075	1,836	1,724
- by Life of the Unit Contracts	602	793	863	753	836	884	452
- by Newport	1	1	1	7			
Interchange with NEPOOL	360	157	191	298	262	23	(285)
Purchased Power - Unit Power	1,396	1,489	1,006	380	410	495	168
Total Generated and Purchased	5,520	6,531	6,180	5,851	5,835	4,900	4,201
OPERATING REVENUES *(thousands)*:							
Residential	$ 189,470	176,538	$ 178,812	$ 156,883	$ 141,254	$ 127,883	$ 104,101
Commercial	179,145	170,034	171,732	149,514	131,306	119,362	89,225
Industrial	81,445	76,946	78,273	69,885	70,852	69,516	58,901
Other Electric Utilities	5,098	5,103	4,828	4,317	19,625	23,660	16,212
Other	21,790	21,314	17,984	22,748	11,642	10,290	13,463
Total Primary Sales Revenues	476,948	449,935	451,629	403,347	374,679	350,711	281,902
Unit Contracts	22,617	47,875	41,225	43,670	46,373	19,518	20,548
Non-Electric(2)	66,912	44,154	29,729	18,668	8,370	3,909	
Total Operating Revenues	$ 566,477	541,964	$ 522,583	$ 465,685	$ 429,422	$ 374,138	$ 302,450
ENERGY SALES *(millions of kwh)*:							
Residential	1,624	1,575	1,579	1,531	1,416	1,412	1,197
Commercial	1,704	1,704	1,689	1,623	1,497	1,424	1,103
Industrial	816	785	777	834	832	869	810
Other Electric Utilities	61	68	66	130	389	377	386
Other	147	147	154	121	28	28	34
Total Primary Sales	4,352	4,279	4,265	4,239	4,162	4,110	3,530
Losses and Company Use	247	241	280	249	234	220	201
Total System Requirements	4,599	4,520	4,545	4,488	4,396	4,330	3,731
Unit Contracts	921	2,011	1,635	1,363	1,439	570	470
Total Energy Sales	5,520	6,531	6,180	5,851	5,835	4,900	4,201
NUMBER OF CUSTOMERS:							
Residential	259,654	257,026	255,620	254,928	227,440	224,933	209,678
Commercial	30,805	32,851	32,745	32,836	27,890	26,611	21,605
Industrial	1,294	1,197	1,172	1,175	1,222	1,217	1,189
Other Electric Utilities	12	15	15	12	14	13	12
Other	34	34	34	34	29	29	31
Total Customers	291,799	291,123	289,586	288,985	256,595	252,803	232,515
Average Annual Revenue per Residential Customer *(dollars)*	730	687	699	636	621	569	496
Average Annual Use per Residential Customer *(kwh)*	6,254	6,128	6,177	6,221	6,226	6,277	5,708
AVERAGE REVENUE PER KWH *(cents)*:							
Residential	11.67	11.21	11.32	10.25	9.98	9.06	8.70
Commercial	10.51	9.98	10.17	9.21	8.77	8.38	8.09
Industrial	9.98	9.80	10.07	8.38	8.52	8.00	7.27

(1) Includes financial and operating statistics for Newport Electric Corporation from April 1, 1990 and EUA Power Corporation through December 31, 1990 at which time EUA Power Corporation was deconsolidated for financial reporting purposes.

(2) 1992 and 1991 amounts restated to reflect consolidation of EUA Cogenex partnerships previously reflected as equity investments.

Consolidated Operating and Financial Statistics (1)

Years Ended December 31,	1993	1992	1991	1990	1989	1988	1983
CAPITALIZATION *(thousands):*							
Bonds - Net	**$ 300,389**	306,898	$ 346,146	$ 363,566	$ 306,500	$ 294,500	$ 226,219
Other Long-Term Debt - Net	**196,427**	156,060	142,306	80,029	299,579	260,064	30,179
Total Long-Term Debt - Net	**496,816**	462,958	488,452	443,595	606,079	554,564	256,398
Preferred Stock - Net	**31,953**	44,346	45,830	50,380	49,691	49,693	49,234
Common Equity	**333,165**	266,855	248,598	237,393	375,016	301,759	172,327
Total Capitalization	**$861,934**	774,159	$ 782,880	$ 731,368	$ 1,030,786	$ 906,016	$ 477,959
CAPITALIZATION RATIOS (%)							
Long-Term Debt	**57**	60	62	61	59	61	54
Preferred Stock	**4**	6	6	7	5	6	10
Common Equity	**39**	34	32	32	36	33	36
COMMON SHARE DATA:							
Earnings (Loss) per Average Common Share ($)	**2.44**	2.00	1.58	(8.18) (2)	2.95	2.85	2.80
Dividends per Share ($)	**1.42**	1.36	1.45	2.575	2.475	2.375	1.79
Payout (%)	**58.2**	68.0	91.8	(31.5)	83.9	83.3	63.9
Average Common Shares Outstanding	**18,391,147**	17,039,224	16,608,090	15,917,255	13,877,091	13,167,915	9,062,810
Total Common Shares Outstanding	**19,032,598**	17,237,788	16,831,062	16,352,708	15,262,237	13,371,252	10,192,304
Book Value per Share ($)	**17.50**	15.48	14.77	14.52	24.57	22.57	16.91
Percent Earned On Average Common Equity	**15.0**	13.2	10.8	(42.5)	12.1	12.8	16.2
Market Price ($):							
High	**29⅞**	25¼	25	41½	41⅜	33⅛	18⅜
Low	**23⅞**	20⅜	15¾	20¾	30⅜	21⅛	13⅞
Year End	**28**	24¾	20⅝	23⅞	41¾	31½	14⅞
MISCELLANEOUS *($ in thousands):*							
Total Construction Expenditures ($)(3)	**63,134**	58,089	60,174	133,629	188,599	151,198	103,309
Cash Construction Expenditures ($)(3)	**60,767**	55,736	57,570	59,929	75,861	65,307	78,912
Internally Generated Funds ($)	**84,290**	53,256	63,681	35,024 (4)	32,734	38,894	27,258
Internally Generated Funds as a % of Cash Construction (%)	**138.7**	126.2	123.0	58.4 (4)	43.2	59.6	34.5
Installed Capability - MW	**1,256 (5)**	1,325	1,349	1,359	1,169	1,090	931
Less: Unit Contract Sales - MW	**85**	85	216	86	116	98	75
System Capability - MW	**1,171**	1,240	1,133	1,273	1,053	992	856
System Peak Demand - MW	**854**	849	879	850	831	813	700
Reserve Margin (%)	**37.1**	46.1	28.9	49.8	26.7	22.0	22.3
System Load Factor (%)	**61.5**	57.5	59.0	60.3	60.4	60.8	60.8
Sources of Energy (%):							
Nuclear	**34.0**	34.1	31.3	37.8	26.8	18.2	23.8
Coal	**5.4**	18.6	21.0	22.6	28.9	27.0	16.3
Oil	**28.3**	12.7	26.9	37.9	44.3	54.8	59.9
Gas	**26.0**	29.3	17.2	1.7			
Other	**6.3**	5.3	3.6				
Cost of Fuel (Mills per kwh):							
Nuclear	**7.5**	7.7	8.7	8.3	7.6	8.2	6.5
Coal	**24.1**	21.2	21.4	21.2	20.1	20.5	21.6
Oil	**25.5**	26.0	18.9	26.3	24.7	22.6	41.5
Gas	**15.1**	13.0	16.2	30.6			
All Fuels Combined	**15.5**	14.8	15.7	18.4	18.8	19.4	30.7

(1) Includes financial and operating statistics for Newport Electric Corporation from April 1, 1990 and EUA Power Corporation through December 31, 1990 at which time EUA Power Corporation was deconsolidated for financial reporting purposes.

(2) After additional charges to 1990 earnings.

(3) 1992 and 1991 amounts restated to reflect consolidation of EUA Cogenex partnerships previously reflected as equity investments.

(4) Excludes EUA Power Corporation's cash interest payments.

(5) Excludes the 69 MW Somerset Station Unit #5 which was placed in deactivated reserve on January 25, 1994.

Shareholder Information

Shares of Eastern Utilities Associates are listed on the New York and Pacific Stock Exchanges, under the ticker symbol EUA. As of February 1, 1994, there were 13,274 common shareholders of record.

Form 10-K

A copy of EUA's 1993 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to shareholders without charge by writing to us.

Annual Meeting

The 1994 Annual Meeting of Shareholders will be held on Monday, May 16, 1994, at 9:30 a.m., in the
Enterprise Room, 5th Floor
State Street Bank and Trust Company
225 Franklin Street
Boston, Massachusetts

Registrar, Transfer Agent And Dividend Disbursing Agent For Common And Preferred Shares

Shareholder Services – Investor Relations
Mail Stop 450209
The First National Bank of Boston
Post Office Box 644
Boston, MA 02102-0644

Lost Or Stolen Stock Certificates

If your stock certificate is lost, destroyed or stolen, you should notify the transfer agent immediately so a "stop transfer" order can be placed on the missing certificate. The transfer agent then will send you the required documents to obtain a replacement certificate.

Dividends

Schedule of anticipated record and payment dates for 1994 dividends on EUA Common Shares:

Record	Payment
February 1	February 15
May 2	May 16
August 1	August 15
November 1	November 15

Replacement Of Dividend Checks

If you do not receive your dividend check within ten business days after the dividend payment date, or if your check is lost, destroyed or stolen, you should notify the disbursing agent in writing for a replacement.

Dividend Reinvestment And Common Share Purchase Plan

A Dividend Reinvestment and Common Share Purchase Plan is available to all registered shareholders and EUA System company employees. It is a simple and convenient method of purchasing additional shares of EUA common stock. Participants in the Plan receive a 5% discount on shares purchased with reinvested dividends.

Participants also may make cash payments to purchase additional shares with no discount. You may obtain complete details by writing to:
William F. O'Connor, Secretary
Eastern Utilities Associates
Post Office Box 2333
Boston, MA 02107

Duplicate Mailings

Duplicate mailings are costly. Shareholders may be receiving duplicate copies of annual and quarterly reports due to multiple stock accounts in the same household. To eliminate additional mailings of these reports, please write to us and enclose label(s) or label information from the duplicate reports. Dividend checks and proxy material will continue to be sent for each account on record.

EUA is required by law to create a separate account for each name when stock is held in similar but different names (e.g.: John A. Smith, J. A. Smith, John A. and Mary K. Smith, etc.). Please contact the Company for instructions if you wish to consolidate multiple accounts.

Quarterly Report To Shareholders

Beneficial owners of our stocks whose shares are registered in names other than their own (e.g., a broker or bank nominee) may obtain copies of our Quarterly Reports to Shareholders on an on-going basis by making a written request to our General Offices address to the attention of the Investor Relations Department. Note that the Annual Report will continue to be mailed to beneficial owners directly by their bank or broker.

Financial Community Inquiries

Institutional investors and securities analysts should direct inquiries to:
Clifford J. Hebert, Jr., Treasurer
Eastern Utilities Associates
Post Office Box 2333
Boston, MA 02107
(617) 357-9590

The name Eastern Utilities Associates is the designation of the Trustees for the time being under a Declaration of Trust dated April 2, 1928, as amended. All persons dealing with Eastern Utilities Associates must look solely to the trust property for the enforcement of any claims against Eastern Utilities Associates, as neither the Trustees, Officers nor Shareholders assume any personal liability for obligations entered into on behalf of Eastern Utilities Associates.

EUA Officers

Donald G. Pardus
Chairman of the Board of Trustees
and Chief Executive Officer

John R. Stevens
President and Chief Operating Officer

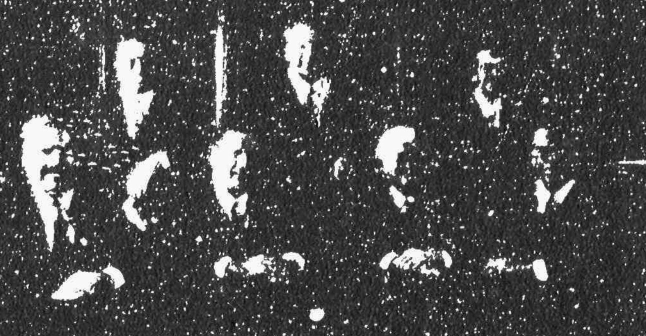
Arthur A. Hatch
Executive Vice President

Robert C. [illegible]
Executive Vice President

Richard M. Burns
Comptroller

Clifford J. Hebert, Jr.
Treasurer

William F. O'Connor
Secretary



Left to Right (seated):
Robert C. [illegible], Executive Vice President; Donald G. Pardus, Chairman and Chief Executive Officer; John R. Stevens, President and Chief Operating Officer; Arthur A. Hatch, Executive Vice President
Left to Right (standing):
Clifford J. Hebert, Jr., Treasurer; William F. O'Connor, Secretary; Richard M. Burns, Comptroller

Left to Right (seated):
[illegible], Jr., Donald G. Pardus, John R. Stevens, Margaret M. Stapleton
Left to Right (standing):
[illegible], Russell A. Boss, John E. Conway, Paul J. Choquette, Jr., Peter B. Freeman, Stanley M. Murphy, Jr., [illegible]

Subsidiary Presidents

Left to Right:
Donald H. [illegible], President, Blackstone Valley Electric and Newport Electric
John D. [illegible], President, Eastern Edison
Joseph S. [illegible], President, EUA Cogenex

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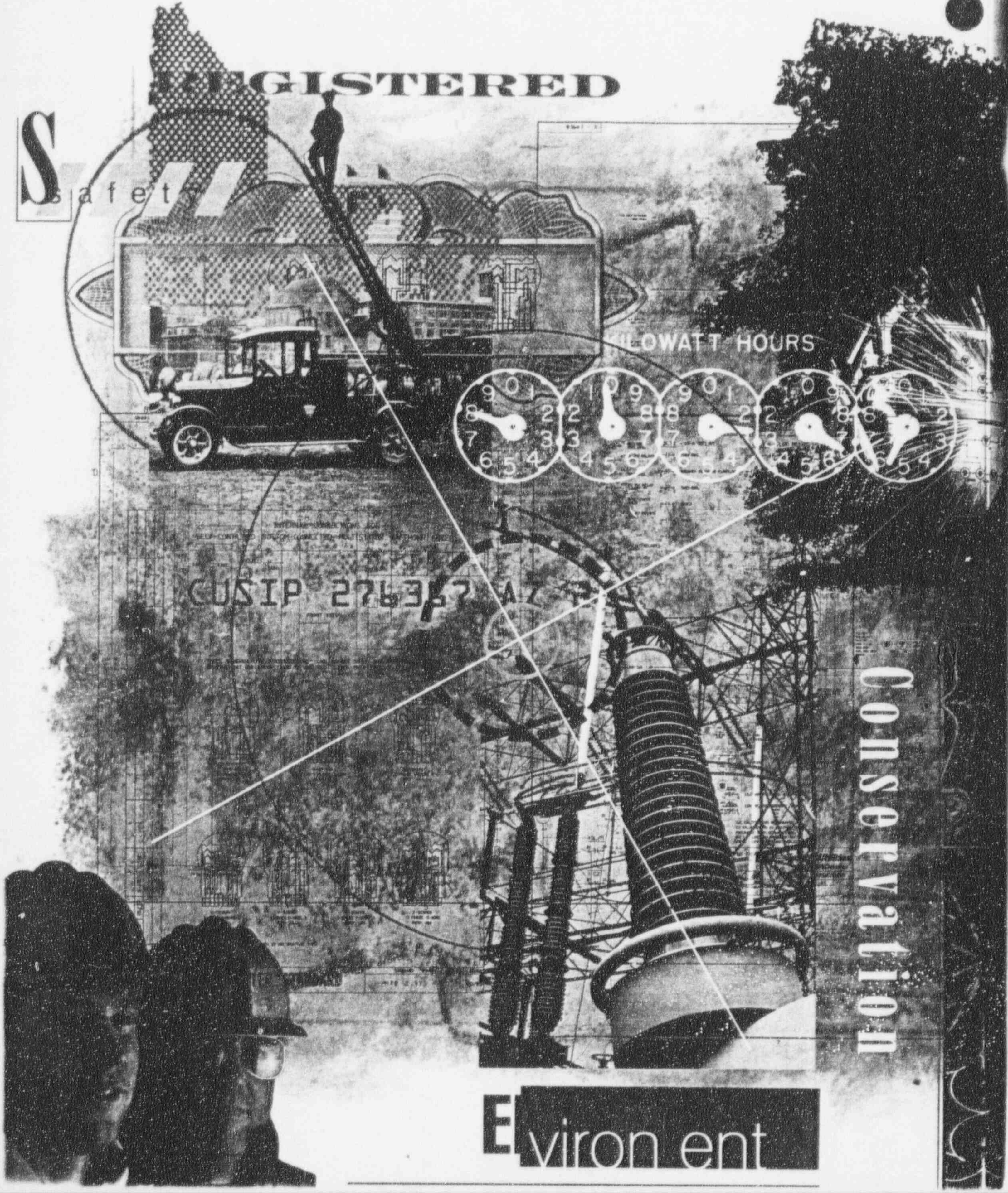

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Richard M. Burns
Comptroller

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Treasurer

William F. O'Connor
Secretary

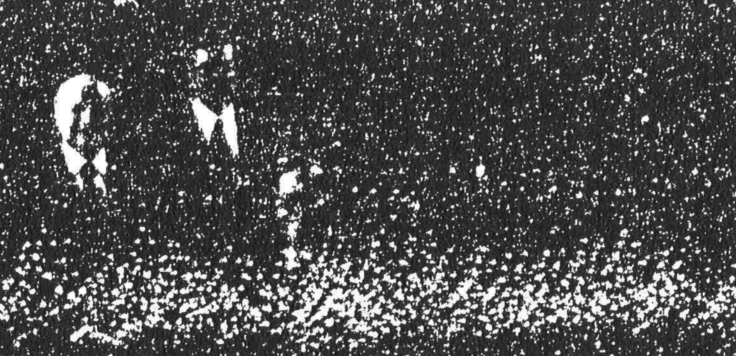
Left to Right (seated):
Robert G. Powderly, *Executive Vice President*; Donald G. Pardus, *Chairman and Chief Executive Officer*; John R. Stevens, *President and Chief Operating Officer*; Arthur A. Hatch, *Executive Vice President*

Left to Right (standing):
Clifford J. Hebert, Jr., *Treasurer*; William F. O'Connor, *Secretary*; Richard M. Burns, *Comptroller*

Left to Right (seated):
John F. G. Eichorn, Jr., Donald G. Pardus, John R. Stevens, Margaret M. Stapleton

Left to Right (standing):
W. Nicholas Thorndike, Russell A. Boss, John E. Conway, Paul J. Choquette, Jr., Peter B. Freeman, Wesley W. Marple, Jr., Peter S. Damon

Subsidiary Presidents



Left to Right:
Donald H. Galvin, *President, Blackstone Valley Electric and Newport Electric*
John D. Carney, *President, Eastern Edison*
Joseph S. Fitzpatrick, *President, EUA Cogenex*

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