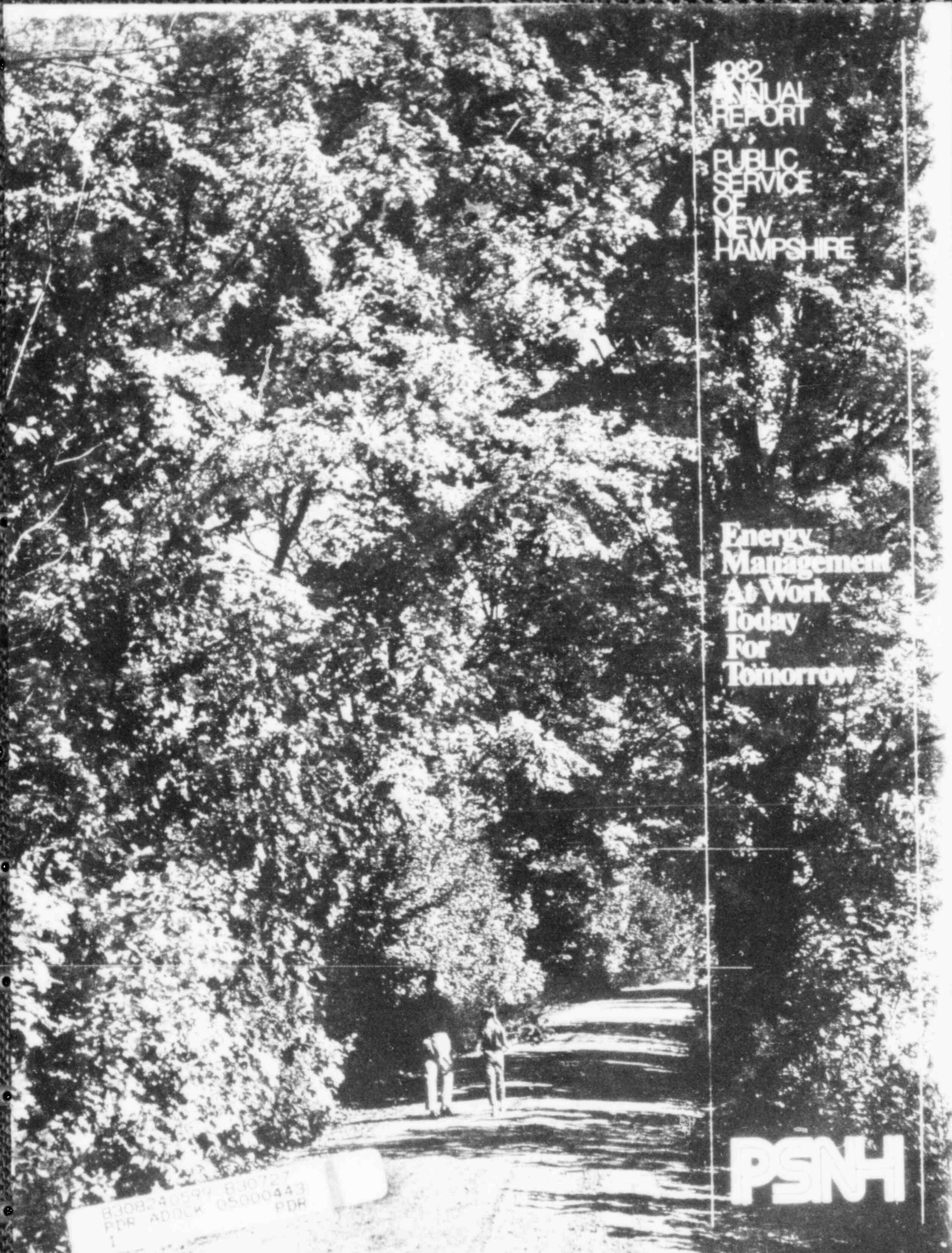


1982 ANNUAL REPORT

PUBLIC SERVICE OF NEW HAMPSHIRE

Energy Management At Work Today For Tomorrow

PSNH

On Our Cover

A study in contrasts. New Hampshire, with its diverse geographical and economic makeup, offers PSNH a unique set of challenges and opportunities to provide safe, reliable and economic electric energy on the road to a secure energy future, while, at the same time, safeguarding the very high standards for quality of life and environment desired by the nearly one million people that make up the Granite State.

Contents

Annual Meeting Of Shareowners

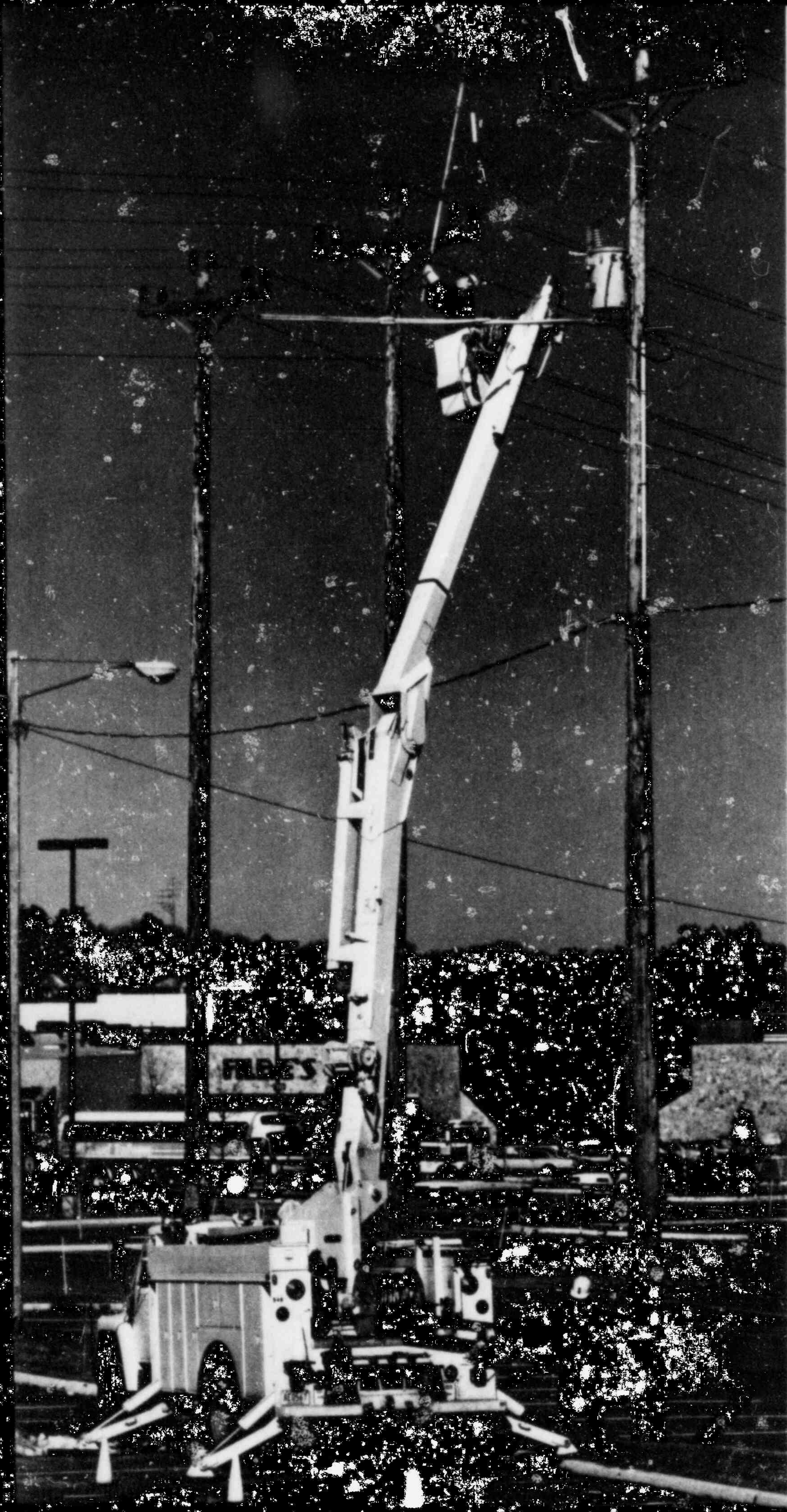
All shareowners are urged to attend the Annual Meeting to be held on Thursday, May 12, 1983, at 9:30 a.m. Eastern Daylight Saving Time, at the Sheraton-Tara Hotel Ballroom, Nashua, NH (Route 3-Everett Turnpike, Exit 1 to Tara Boulevard). During the meeting there will be an opportunity to discuss matters of interest pertaining to the Company.

Description Of Business

Public Service of New Hampshire is the largest electric utility in New Hampshire, supplying electricity to approximately three-quarters of the state's population. The Company distributes and sells electricity at retail in approximately 200 cities and towns in the State of New Hampshire. The Company also sells electricity at wholesale to six other utilities.

Corporate Offices

Public Service Company of New Hampshire
1000 Elm Street, P.O. Box 330
Manchester, New Hampshire 03105
Telephone: (603) 669-4000



1982 ANNUAL REPORT

PUBLIC SERVICE OF NEW HAMPSHIRE

Working Line Foreman Richard Duvai, in bucket, and Lineworker Gil Mailloux, working at a Manchester, NH, location are silhouetted by signs of new growth in New Hampshire. The state, noted for its scenery, quaint villages and country roads, is also one of the most manufacturing-intense states in the nation and home to a number of major manufacturers, particularly in the high-tech computer field.

Letter to Shareowners

Dear Shareowner:

Throughout our history as a company, we have been committed to providing customers with a dependable supply of electricity at a reasonable cost, while providing a fair return to investors. In 1982, the Company overcame significant challenges and achieved those goals with solutions that have potentially dynamic and far-reaching implications for PSNH.

Last year's difficult and complex problems rigorously tested our management skills, but the knowledge and confidence gained from our success will help us meet the challenges of 1983.

In 1981, we reported to you that the Company was redefining its goals and strategies. In November, 1982, we unveiled our new future plan. In a document entitled "New Energy Horizons," we expressed our hope to work together with customers to manage our existing and future supplies of energy as well as the demands for energy.

Managing electrical demand is a new step for the Company, but one which will reap substantial benefits for shareowners and customers by reducing the need for new baseload generating capacity. "New Energy Horizons" will have a dramatic effect on how PSNH will supply electricity in the future, and on how customers will use that electricity. We feel this document is so important that we have devoted the entire first section of this Annual Report to it.

Construction of the Seabrook Station nuclear plant, which is vital to New England's future electricity supply, continued to play a major role in the Company's activities in 1982. In November, an update of the project's cost and completion date estimate indicated that Seabrook Station's two units would be completed in December, 1984, and March, 1987, at a total cost of $5.12 billion. These estimates reflect an increase in cost of approximately $1.6 billion, and a delay in completion of 10 months for each unit. Subsequently, the project's owners decided to maintain the 1982 level of construction on Unit 2 in 1983, thereby changing that unit's completion date to July, 1987.

In light of the new estimate, management took two important steps: we engaged an independent consultant to review the cost and schedule estimate; and we instructed the project's architect/engineer to update the cost estimate monthly. While the increase in the estimated cost of Seabrook Station is substantial, the project remains an economical investment compared to the estimated cost of over $3,000 per kilowatt for new coal or nuclear plants being planned or currently under construction. Also, Seabrook Station will sharply reduce our dependence on foreign oil, the supply and cost of which is uncertain, and will help reduce the environmental impact associated with fossil fuel generation of electricity.

Last year we reaffirmed management prerogatives when faced with an order from the New Hampshire Public Utilities Commission that could have delayed construction of Seabrook Station Unit 2. The Commission sought to restrict the use of proceeds from Company financings on Unit 2 construction but the Company successfully challenged the order before the state Supreme Court. The Court clearly upheld the Company's right to make decisions related to construction of the Seabrook project once a certificate of site and facility had been received.

During the course of the year, the Seabrook project reached several construction and regulatory milestones, including receipt of a favorable environmental impact report from the Nuclear Regulatory Commission staff and approval by the Atomic Safety and Licensing Board of issues and intervenors for the upcoming operating license hearings. The Company is now confidently moving toward final licensing and start-up of Seabrook Station.

In 1982 the Company acted decisively to improve its overall communications programs. Following a thorough communications audit by an outside consultant, the Company established and filled the position of vice president for public affairs. Next, the Company restructured its existing communications programs and departments and surveyed customers and employees to determine the current attitudes of those two important stakeholder groups. As a result, the Company is now in a better position to communicate more effectively with our various publics.

The Company has always taken pride in the quality and professionalism of its employees. In 1982, we took a number of steps to increase the quality and quantity of training programs and to increase employee involvement in the management process. The Company has and will continue to give its full support to safety training, management skill development and employee involvement programs such as Quality Circles. We recognize that only through the skill and dedication of each of our employees can we continue to succeed in our commitment to provide an adequate and dependable supply of energy.

Shareowners are also an important part of the life of the Company, and much of our activity in 1982 was undertaken to assure that the Company would continue to be a safe, secure investment opportunity for our shareowners.

Earnings per share of common stock for 1982 were $2.73, up $0.08 over the results of the previous year. The increase was primarily the result of increased Allowance for Funds Used During Construction (AFUDC) offset by a 16 percent increase in the average number of shares outstanding during the year.

Despite the economic conditions that prevailed throughout 1982, the Company recorded dividends paid per share of common stock of $2.12 for the year ending December 31, 1982.

Additionally, the Company has determined, based on 1982 operating results, that 100 percent of the dividends paid on both common and preferred stock were non-taxable. A significant portion of the Company's earnings is comprised of AFUDC, which represents the estimated costs of funds invested in the Company's construction program. As such, AFUDC is not recognized as earnings for tax purposes. It is essentially this tax treatment of AFUDC that makes the Company's dividends non-taxable.

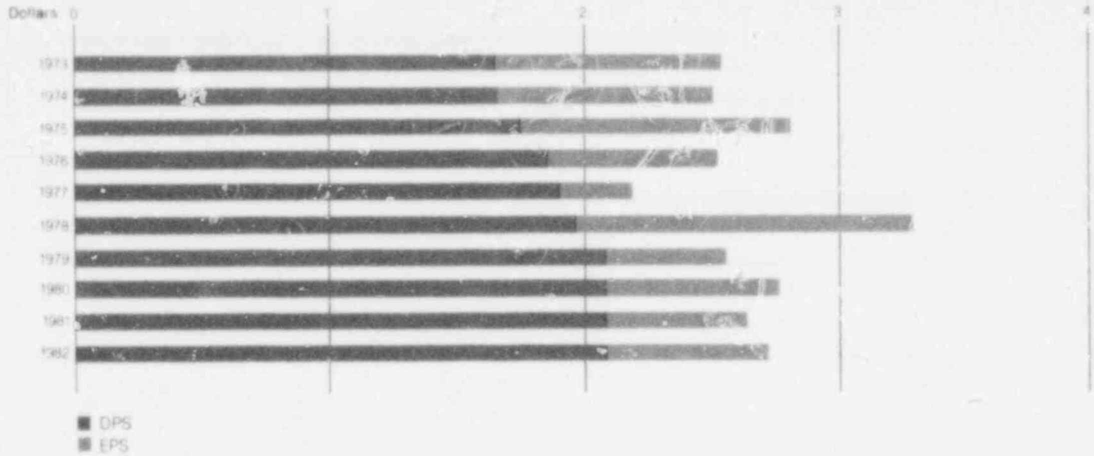
Overall, 1982 was a year of challenges faced and overcome. The skill and dedication of PSNH employees working today to manage energy, combined with the support and cooperation of shareowners, customers and citizens of New Hampshire, has allowed the Company to make great strides forward and, we are certain, will allow us to meet the challenges that lie ahead on the road to an energy secure tomorrow.

R.J. Harrison
R.J. Harrison
President and
Chief Executive Officer

Wm Tallman
W.C. Tallman
Chairman

Letter to Shareowners

Dividends Per Share & Earnings Per Share



Highlights of 1982

	1982	1981	Change Since 1981
Operating Revenues	$ 423,290,444	$ 440,884,267	(4.0)%
Operating Expenses	$ 379,821,274	$ 393,833,493	(3.6)%
Earnings Per Share of Common Stock	$ 2.73	$ 2.65	3.0%
Common Shares Outstanding (Average)	25,457,905	21,883,224	16.3%
Gross Investment in Utility Plant	$1,621,062,902	$1,335,596,777	21.4%
Construction Expenditures	$ 304,968,374	$ 124,815,807	144.3%
Prime Peak Load (Net Kilowatts)	1,176,000	1,203,000	(2.2)%
New Hampshire Sales			
Prime Kilowatt-Hours Sold (Thousands)	5,586,647	5,510,196	1.4%
Number of Customers (Average)	290,603	285,968	1.6%
Annual KWH per Residential Customer	6,950	6,934	0.2%

General Information

Annual Report and Statistical Supplement

This 1982 Annual Report has been approved by the Board of Directors. The 1982 Statistical Supplement (containing corporate statistics for the last 10 years) will be available in early April. If you would like a copy, or have questions about the Annual Report or the Company, please write to Russell A. Winslow, Secretary, Public Service of New Hampshire, P.O. Box 330, Manchester, NH 03105.

Stock Exchange Listing

Shares of $5 par value common stock and $25 par value preferred stock are listed on the New York Stock Exchange. The Company's symbol on the exchange is PNH.

Common Stock Ownership

As of December 31, 1982, there were 66,552 owners of the Company's common stock.

Shareowner Information

Shareowner inquiries regarding change of address, dividends, stock transfer requirements, lost or stolen certificates, or other account information should be directed to the Transfer Agent and dividend disbursing agent as follows:

The First National Bank of Boston
Shareholder Services Division
P.O. Box 644
Boston, MA 02102

Dividend Reinvestment and Common Stock Purchase Plan

The Company has a Dividend Reinvestment and Common Stock Purchase Plan for its shareowners and employees. Through the Plan, shareowners can purchase shares of the Company's common stock without the payment of any brokerage commission or service charge. We believe shareowners will find the Plan a convenient way in which to increase their ownership in Public Service of New Hampshire. If you desire more information concerning the Plan, please write to the agent for the Plan as follows:

The First National Bank of Boston
PSNH Dividend Reinvestment and Common Stock Purchase Plan
P.O. Box 1681
Boston, MA 02105

Transfer Agents

The First National Bank of Boston
100 Federal Street
Boston, MA 02110

Manufacturers Hanover Trust Company
4 New York Plaza
New York, NY 10015

Registrars

The First National Bank of Boston
100 Federal Street
Boston, MA 02110

Morgan Guaranty
Trust Company of New York
30 West Broadway
New York, NY 10015

Form 10-K

The Company will furnish, without charge, to each shareowner who makes a written request therefor, a copy of the Company's 1982 Annual Report on Form 10-K as filed with the Securities and Exchange Commission. Written requests should be mailed to George Branscombe, Treasurer, Public Service of New Hampshire, P.O. Box 330, Manchester, NH 03105.

To The Year 2000

As the year 2000 approaches, the preschool children of today will be preparing to take their places as adults in the mainstream of life in 21st century New Hampshire.

Public Service of New Hampshire will be ready to provide them with efficient, economical and secure supplies of electric energy.

Providing a secure electric energy future is not an easily attainable goal. However, it can be accomplished by developing and implementing a plan, today, that stresses the proper management of our constantly changing electric energy uses and resources over the coming decades.

Recognizing the need for such a plan, PSNH invested months of research and study into the present and future supply of and demand for electric energy in New Hampshire. In late 1982, PSNH announced the development of "New Energy Horizons," a long-range planning document that balances the most favorable benefits for two of the Company's most important stakeholder groups — customers and shareowners.

"New Energy Horizons," however, is more than just a long-range plan; it is a flexible, comprehensive blueprint that points out significant new and innovative directions for the Company in the years to come. The plan focuses attention on both sides of the electric energy equation by addressing the supply alternatives for electric energy; stressing the potential in vigorous management of the demand for electricity; and defining the roles of both the Company and its customers in meeting New Hampshire's energy future.

The Supply Side of the Equation

In the past, most electric utilities, including PSNH, approached the electric energy supply problem with a solution that called for the construction of enough new power plants to continually meet current and projected demands for electricity. In the future, due to economic, legal and regulatory constraints, it will be increasingly difficult for utilities to construct new plants.

By the year 2000, Seabrook Station will be a mature, reliable energy producer. PSNH's goal, today, is to complete both Seabrook Station units as rapidly as possible at an ownership level that is financially manageable.

Completion of Seabrook Station is a major part of the Company's new energy supply plan. Operation of the station's two, 1,150-megawatt units, of which PSNH currently owns approximately 35 percent, will significantly reduce the need for the Company to consider construction of any new baseload generating units for a number of years to come. At the same time, Seabrook Station will allow the Company to reduce its dependence on foreign oil, the supply and cost of which remain uncertain, and will give the Company "breathing room" in which to explore and develop alternative sources and methods of electric energy generation.

In order to increase future flexibility in matching supply with demand, and to further assist the Company in reducing oil use, the plan also calls for the pursuit of other supply options, including the development of supplemental and hydroelectric resources, as well as the support of plans for purchased power from Canada.

The Demand Side of the Energy Equation

While the completion of Seabrook Station and the development of other supplemental resources and hydroelectric power is expected to play a vital role in ensuring the future of electric energy in New Hampshire, supply alternatives can not be expected to carry the burden alone.

The assurance of a secure energy future, therefore, also rests on a complementary strategy that provides for the effective management of the demand for electricity.

PSNH's blueprint for the future recognizes these facts and seeks to provide a basis for the formation of a partnership between the Company and its customers in the management of the demand for electricity.

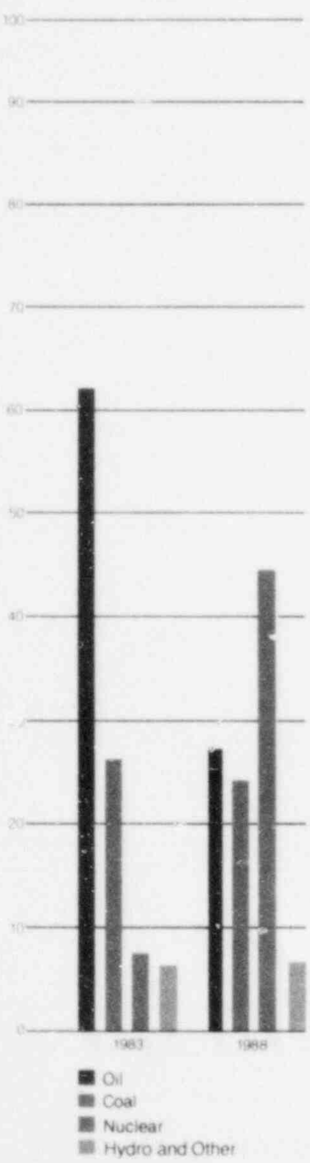
To begin an action agenda for managing growth in demand, the Company, following extensive, computer-aided analysis, set a target goal for growth in electric energy demand of 1.5 percent per year.

That goal, the Company believes, is low enough to ensure the accomplishment of the companion supply strategy, while still providing New Hampshire with opportunities for supporting population growth, economic development and an overall improvement in the quality of life for its residents.

Energy awareness among young people is an important aspect of the Company's theme, "Energy Management at Work Today for Tomorrow." At left, PSNH School Program Teacher Colleen Theret conducts a session in energy conservation at St. Joseph's School in Nashua, NH. During the 1981-82 school year, the Company's classroom-taught conservation and safety programs reached approximately 25,000 youngsters in 241 schools throughout the state.

To The Year 2000

Sources of Capacity (percent)



The 1.5 percent yearly growth in energy demand is a goal, however, and not a forecast. The Company's recent forecasts have been in excess of 1.5 percent and may continue to be higher. Nor is the goal a stagnant one, because the Company realizes that, as circumstances change, its goals must also change. The difference between the goal and forecasts represents a gap to be reduced by an effective demand management partnership between the Company and its customers.

The most crucial portion of the effort to manage the demand for electric energy is in its application. PSNH's efforts to achieve the goals of its plan will be realized through positive action to assist its customers with varied cost, quality and quantity options that will encourage efficient, wise use of electricity as well as individual choice in the selection of electric energy use alternatives.

In 1982, PSNH began to take the necessary steps to implement its plan for the coming decades.

To provide the proper levels of future energy supply, the Company began increasing hydroelectric output, converting from oil to coal and exploring and supporting plans for purchasing power from Canadian sources.

During 1982, the Company commissioned two new hydroelectric generating units at its Garvins Falls Hydroelectric Station and began a $5.7 million project to double the existing generating capacity of its Eastman Falls Hydroelectric Station. In July, the Company also applied to the Federal Energy Regulatory Commission for a license to build a new hydroelectric station at an existing dam located in northern New Hampshire.

Throughout the past year, the Company supported a plan which will eventually lead to the development of a transmission system bringing Canadian power from Hydro Quebec into the New England system. Currently, substantial progress has been made in obtaining state and federal approval of transmission routes and substation locations for the first part of the project.

Over the coming decades, PSNH will continue to seek out and develop economically acceptable hydroelectric generating projects and will continue to support reasonable increases in the use of Canadian sources of hydropower.

The Company was also active in planning the conversion of a portion of its oil-fired generation to coal, completing the final stages toward the eventual conversion to coal of three oil-fired units located at the Company's Schiller Station in Portsmouth, NH.

As the first step in managing the demand side of the energy equation, the Company developed a list of energy demand management options which are currently being considered by the Company, the New Hampshire Public Utilities Commission staff and other interested parties in a comprehensive investigation into the supply of and demand for electric energy in New Hampshire.

The options being considered by the Company include: an accelerated storage space and water heating program; a new and improved time-of-use rates program; a water heating conservation program; a street lighting efficiency improvement program; a CAP-it, customer assisted insulating program; programs geared toward direct Company control of interruptible loads and direct Company control of customer appliances; an energy conservation information program; and an enhanced and expanded program of energy conservation audits.

The Company also instituted a customer alert peak-shaving program, called "Clockwatch 6," in November. The program asks customers to postpone the use of some electric appliances during heavy use periods when the Company determines that generation is heading toward an energy demand peak.

Rapid completion of Seabrook Station, increases in the use of hydropower and coal in place of oil, innovative demand management programs and research into the energy sources of tomorrow are the first steps for the Company toward a secure energy future. Much has been done, but much more still needs to be accomplished on the road ahead. However, through planning, perseverance and innovation, a secure energy future will be a reality in the year 2000.

The assurance of a secure energy future rests not only with proper management of the supply of electricity, but also with management of the demands for electricity placed upon the Company by its customers. Left, Energy Applications Specialist George Abood conducts an energy audit at a customer's home to determine how energy efficient it is and to recommend modifications and conservation practices that could improve the customer's use of electric energy.

Looking to the Future; Research and Development

Research and development for the power sources of tomorrow are being supported by PSNH today.

Since research into electrical energy use and production is being conducted on so many different fronts, it benefits the Company to pool a substantial part of its research and development funds with more than 600 other suppliers of electricity into one research and development fund. That fund is administered by the Electric Power Research Institute (EPRI), which conducts research and development on behalf of its members. Through the pooling method, PSNH can obtain the benefits of major research and development projects that are beyond the financial capability of any single electric utility company.

During 1982, PSNH contributed approximately $1.5 million to research and development efforts. Of that total, approximately $873,000 was earmarked for EPRI programs.

Of the $873,000, 44 percent was used in research to improve existing fossil-fired and nuclear power generation systems and to develop advanced generating equipment and technologies, including equipment for use with renewable energy sources. Remaining amounts were allocated to research to improve current understanding of environmental and health effects of electricity generation and transmission; improving the performance of transmission and distribution systems; research and development of new processes and systems to expand the use of clean gaseous, liquid and solid fuels; development of systems and equipment to conserve energy through efficient management of electricity supply and end use; and, developing improved information and forecasting methods to aid in energy decision making.

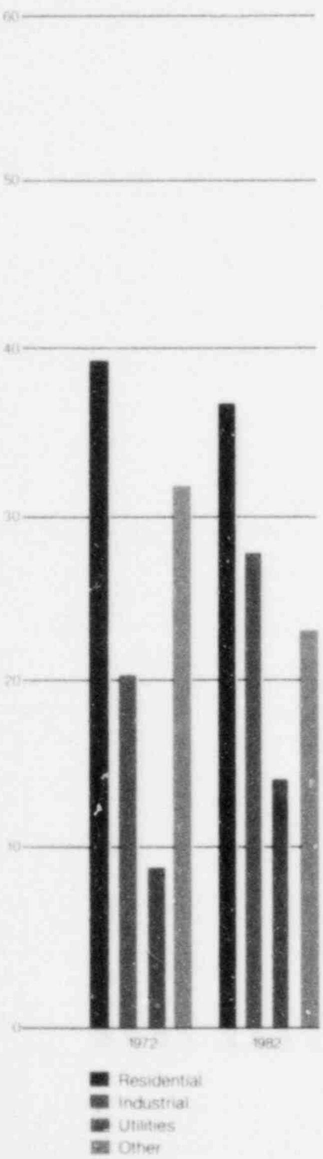
The Company was also involved as a co-sponsor of a research program investigating alternatives to chlorination in marine biofouling control.

Through its involvement in diverse, high technology research, PSNH continues its commitment to the improvement of existing means and the exploration of alternative sources of electric generation and conservation methods that will lead the way to secure, economically viable, electric energy in the year 2000 and beyond.

To The Year 2000

An energy secure future depends, in great measure, upon the youth of today. Teacher Fred Wolfe oversees members of the gifted and talented class at the Hood Junior High School in Derry, NH, as they assemble a blade that will be part of a windmill being built by the class. When completed, electricity generated by the windmill will be purchased by PSNH. The project also allows members of the class to get first-hand knowledge of the complex nature of electric generation and explore possible energy alternatives for tomorrow.

Sources of Revenue (percent)



Operations

A Commitment to Communications

In 1981, PSNH made an important commitment toward refining the Company's abilities to communicate with its publics, both internally and externally. In 1982, major strides were made toward attaining the goals that follow from that commitment.

During 1981, the Company began the process of evaluating its communications programs by retaining the nationally recognized public relations firm of Hill & Knowlton Inc., to conduct a communications audit of the Company. In June, 1982, the Company announced the findings and recommendations of the audit.

That audit found that the Company was given high marks for service and reliability, but had suffered a decline in public approval because of certain key issues and the Company's inability to communicate effectively on them.

Based on the findings, Hill & Knowlton recommended, in part, that the Company: reorganize public affairs as a top management function; rebuild the Company's image by articulating specific points; have management employees assume a more positive posture; see that top management is more accessible to the media; produce more positive stories about the Company; and establish a greater communications staff presence at Seabrook Station.

Acting on the recommendations of the audit, the Company announced the creation of a vice presidency for public affairs, the restructuring of the Public Information Department to deal more effectively with the media, and the development of a communications master plan designed to enable the Company to anticipate and address future communications needs on a timely basis.

One of the first steps in developing an effective communications program was determining the attitudes of those groups which affect and are affected by a company such as PSNH.

To determine the attitudes of two key groups, customers and employees, the Company undertook two survey projects in 1982.

The results of the customer survey in great measure confirmed the beliefs of management that the Company provides dependable service and treats its customers fairly. Results indicated that 86 percent of those polled said they were satisfied with PSNH. On the question of Seabrook Station, results showed that 54 percent agreed with reasons for the construction of Seabrook Station.

The results of a preliminary report of the employee survey did not surprise PSNH management. That report indicated that employees have a high regard for the Company and their jobs. As a result of this high regard, employees take an unusual measure of pride in their work and feel that what they do is important and contributes to the Company's goals.

Employees also indicated that the Company cares about them and that its policies are essentially fair towards them.

The final survey report is expected to be completed in 1983.

Management Development

The Company continued, in 1982, to develop and support programs to increase the effectiveness and efficiency of every employee.

In 1982, PSNH initiated a comprehensive management development program for executives and managers that combines the concepts of managing for productivity and functional goals training. The program is designed to improve skills in managing people.

The Managing for Productivity segment of the program is aimed at developing a common understanding of PSNH's management dynamics, language and philosophy of management among Company managers. The Functional Goals Training segment is a part of the Company's ongoing effort to set goals and objectives at the corporate level and in each functional area of the Company.

Currently, nearly 200 managers have participated in the program. It is expected that 600 will have participated by 1984.

Employee Involvement

In 1981, PSNH initiated a Quality Circles program. The purpose of the program is to create a better work environment through increased employee participation and involvement in project identification, analysis and solutions to problems in those areas directly affecting their work.

In 1982, employees involved in Quality Circles from various departments and divisions throughout PSNH completed projects and made presentations of their findings to management. The projects selected by the groups covered a broad range of Company activity, from work schedules and job performance evaluations to delays in answering customer inquiries.

Members of the Company's Southern Division Meter Department participate in a regular Quality Circles meeting. Begun by PSNH in 1981, Quality Circles continued in 1982 to provide for increased employee participation and involvement in identifying and solving problems in those areas directly affecting their work. Participative management of the type found in Quality Circles is vital to the success of PSNH's plan for an energy secure tomorrow.

In every sense, Quality Circles proved a success in 1982 for both the Company and its employees and are expected to expand in the coming year.

Executive Changes

On January 20, 1983, the Board of Directors of the Company elected President Robert J. Harrison to the additional post of chief executive officer, effective March 1, 1983.

Harrison succeeded William C. Tallman, who had been serving as chief executive officer since January, 1969. Tallman continues as chairman, a position he has held since 1980.

The election of Harrison as chief executive officer is a part of Company planning for orderly management succession which began with his election as president in 1980 and subsequent election as chief operating officer in 1981.

The untimely death of William A. Adams, Jr., executive vice president and member of the Board of Directors, and the January, 1983, retirement of Vice President Elroy L. Littlefield, were major factors leading to officer changes voted by the Board of Directors in December, 1982.

At the same time, the Company restructured a portion of the executive staff to more evenly distribute executive responsibility and increase management efficiency and effectiveness.

Elected as senior vice presidents were John C. Duffett and Henry J. Ellis.

Duffett, a 28-year veteran of PSNH, is now responsible for the Customer Accounts, Operating and General Services Divisions as well as Employee Relations, Purchasing and Information Systems and Services.

Ellis, a 36-year Company veteran, is now responsible for the areas of Corporate Strategic Planning, Rates and Load Research, Energy Management and Research, Marketing and Supplementary Energy Sources.

Elected as vice presidents were Roy G. Barbour, William T. Frain, Jr., and Robert A. Parks.

Barbour is now responsible for the General Engineering Division, the General Construction and Maintenance Division and the Real Estate Department.

Frain, formerly comptroller, is now vice president responsible for the Accounting and Treasury Divisions.

Parks now has overall responsibility for all corporate management information systems functions.

Also elected to new positions were John J. Lampron, assistant vice president in the area of finance, George Branscombe, treasurer, and Robert G. Ouellette, comptroller.

Effective communications, employee involvement and finely tuned management skills—together they will provide the catalyst that will assure the success of the Company's goals and strategies leading to a secure energy future.

Finance

Finance In 1982

The continued financing of expenditures associated with the Company's construction program, including the Company's share of Seabrook Station nuclear plant, played a dominant role in the financial activity of the Company in 1982.

Despite the poor market conditions that characterized the first half of 1982, the Company successfully completed five major financings during the period from April through October, raising a total of $248.4 million.

On April 20, the Company concluded the first of its 1982 offerings with the sale of three million shares of common stock. The proceeds of the sale, plus the proceeds under the Company's Dividend Reinvestment Plan, raised approximately $49.8 million.

The sale of $50 million in Series E, General and Refunding Bonds was concluded in June to yield $48.1 million in proceeds to the Company, and a $20 million Banker's Acceptance agreement was finalized in August.

Uses of Revenue (percent)

Senior System Dispatcher George Hilton, front, System Operation Safety Training Coordinator Joseph Breton, center, and Senior System Dispatcher Mark Haeck, rear, work at the heart of the Company's generation and transmission system, the Electric System Control Center, controlling the supply and distribution of electricity to the Company's customers throughout New Hampshire. The Center, which monitors electric energy demand levels, is also a key element of a new customer alert peak-shaving program, "Clockwatch 6," which is an important part of the Company's energy management plan.

1982 In Review

The Company took advantage of improving market conditions in the latter half of 1982 by doubling a planned offering of 1.2 million shares of preferred stock to 2.4 million shares, which yielded $57.6 million in proceeds to the Company. Improved market conditions were also a factor in the sale of $75 million in debentures in early October, which yielded $72.9 million.

Closing out the financial year's activity, the Company, on November 30, renewed the maturity of its $160 million revolving credit loan for a period of approximately one year.

Finance In 1983

In 1983, financing of construction expenditures, including Seabrook Station, will again be a major factor in the financial activities of the Company.

During 1983, the Company will seek to conclude a number of major financings expected to raise funds in excess of $450 million. Along with financing of continuing construction associated with Seabrook Station, proceeds will be used to refinance certain maturing long-term debt, meet required sinking fund payments and finance working capital.

The Company expects to raise the projected 1983 funding primarily through the issuance of common and preferred stock, debentures and General and Refunding bonds and Eurobonds as well as through nuclear fuel financings.

The Company also expects to be involved in the sale of Pollution Control Revenue Bonds in conjunction with the financing of pollution control systems at Seabrook Station and conversion to coal of three oil-fired generating units at the Company's Schiller Station.

Through March, 1983, the Company successfully concluded the sale of five million shares of common stock, yielding $91.5 million in proceeds to the Company, and the sale of $100 million in debentures, yielding $97.2 million in proceeds to the Company. The sales of the five million shares of common stock and the $100 million in debentures represent the largest sales of both equity and debt ever for the Company.

Rate Matters

In January, 1982, the New Hampshire Public Utilities Commission (NHPUC) granted a $28.9 million, or 8 percent, permanent New Hampshire retail rate increase.

On July 2, the NHPUC approved an increase in annual non-energy revenues of approximately $9.5 million to recover certain expenses not covered in the January rate increase.

On December 30, 1982, the Company filed with the NHPUC for an increase in its New Hampshire retail rates of $33.4 million annually, or approximately 9.45 percent, to become effective February 1, 1983.

This rate increase request is necessary in order to meet rising expenses due primarily to increases in the cost of money, taxes and other expenses during 1982.

In accordance with New Hampshire statutes, the NHPUC, on January, 17, 1983, suspended the effectiveness of the new rates for a period of up to six months. In late January and early February, the Commission conducted a number of public informational hearings throughout the state regarding the requested rate increase. To date, however, no further action has been taken on the Company's request. Under New Hampshire law, the Company is entitled to place the requested rates in effect under bond in August, 1983, if the NHPUC has not acted on the Company's request by then.

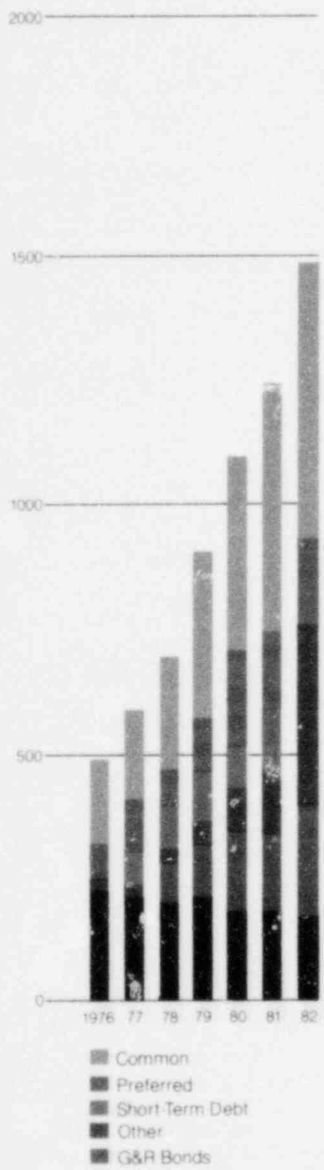
Earnings Rise Despite Sluggish Economy

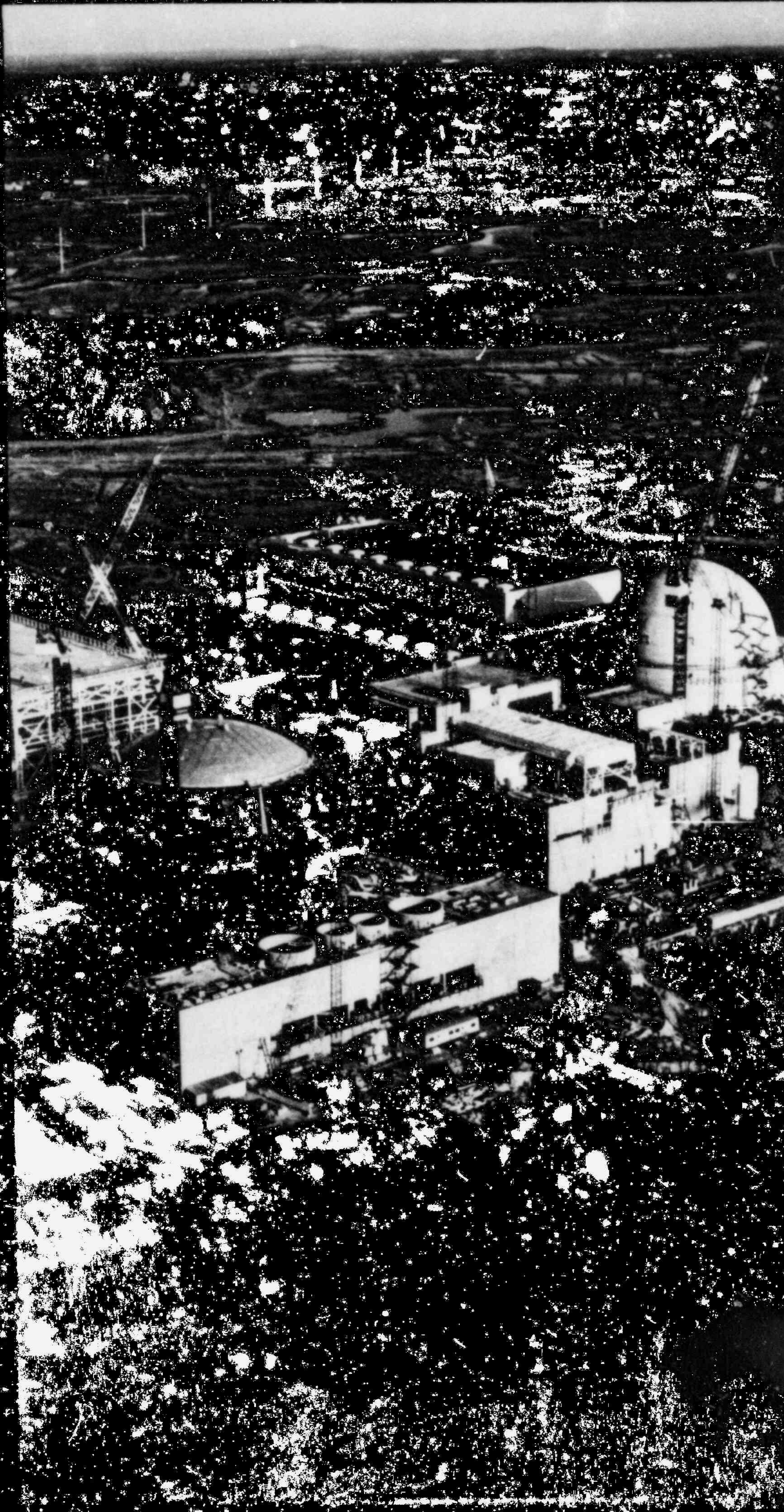
Despite the generally sluggish state of the economy and an increase in the average number of shares outstanding, the Company's 1982 per share earnings rose $0.08 to $2.73 from the 1981 level of $2.65. The increase in per share earnings in 1982 was primarily due to increased Allowance for Funds Used During Construction (AFUDC).

The financing plan proposed by the Company for the 1983–1984 period is ambitious in scope and diversified in nature but achievable in light of continuing, timely and appropriate rate increases, a vastly improved capital market and slowly improving general economy, nationally and particularly in New Hampshire.

By continuing the success of our financial plans the Company can achieve a successful completion of Seabrook Station, continue to implement a plan for the future, and effectively meet the needs of customers, employees and shareowners with a financially healthy company in the years to come.

Capitalization and Short-Term Debt 1976 To 1982 (millions of dollars)





As of January 31, 1983, Seabrook Station was approximately 53 percent complete in terms of man-hours earned. Completion of the project is a major part of the Company's new energy supply plan. Operation of the station, of which PSNH currently owns approximately 35 percent, will significantly reduce the need for the Company to consider construction of any new baseload generating units for a number of years to come.

Production

Seabrook Station Milestones

A number of major construction milestones were achieved at Seabrook Station over the previous year.

One of the major portions of construction, unique to Seabrook Station, is a set of cooling tunnels which will channel seawater to the station's condenser cooling system. The tunnels, each approximately 1.5 miles long and 19 feet in finished diameter, are currently being lined with concrete and are expected to be flooded in 1983.

Construction on the reactor containment building for Unit 1 progressed rapidly and was "topped off" on October 7. Work continues within the Unit 1 containment building on the reactor and auxiliary systems.

Work on the reactor containment building for Unit 2 also continued throughout 1982. By year's end construction on the interior and outer walls and placement of equipment within the containment building were in progress.

The completion of the administration building as well as the placement of the structural steel framework for the Unit 2 turbine-generator building occurred during the past year.

On January 31, 1983, approximately 71 percent of the estimated costs of Unit 1 and the common facilities for the station had been expended. Approximately 27 percent of the estimated costs of Unit 2 had been expended, with the entire project being approximately 52 percent complete, in terms of dollars expended, not including AFUDC and nuclear fuel.

In terms of man-hours earned, Seabrook Station was 53 percent complete as of January 31, 1983, with Unit 1 and common facilities being 70 percent complete and Unit 2, 18 percent complete. The difference between cost and man-hours earned reflects the purchase of materials which have yet to be installed.

Another milestone on the road to eventual operation of Seabrook Station was also realized in 1982.

In April, the Company initiated a Probabilistic Safety Assessment, conducted by the consulting firm of Pickard, Lowe and Garrick.

In September, the completion of the first phase of the assessment was reported. The report stated that, "Seabrook Station does not stand out, in terms of risk, from other similar nuclear power plants that have been analyzed," and that, "Features specific to Seabrook Station do not introduce elements of risk that set Seabrook Station apart from the spectrum of risks observed at other nuclear plants."

The second stage of the assessment, during which the first phase results will be refined, is scheduled to be completed in the spring of 1983, with a final report due in the late fall of 1983.

The Probabilistic Safety Assessment, undertaken by the Company, is an extremely rigorous approach to evaluating complex technical construction and is a tool that facilitates an analysis of the probability of sequences of accidents, the probability of multiple failures resulting in catastrophic accidents and the impact of such events.

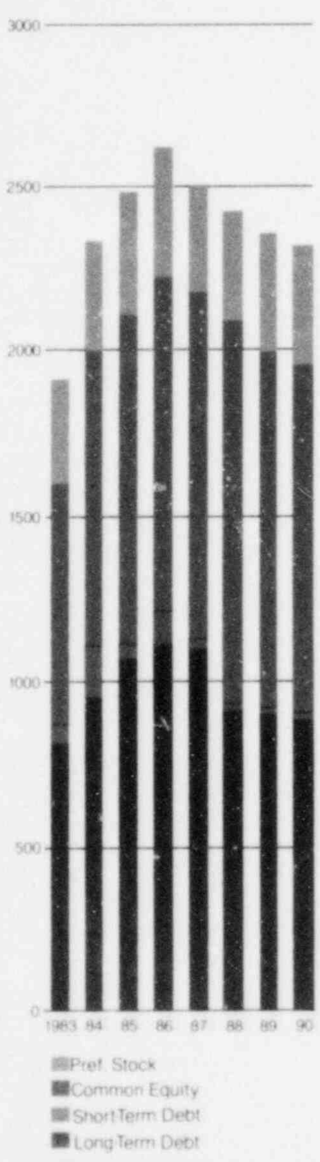
Regulatory Milestones

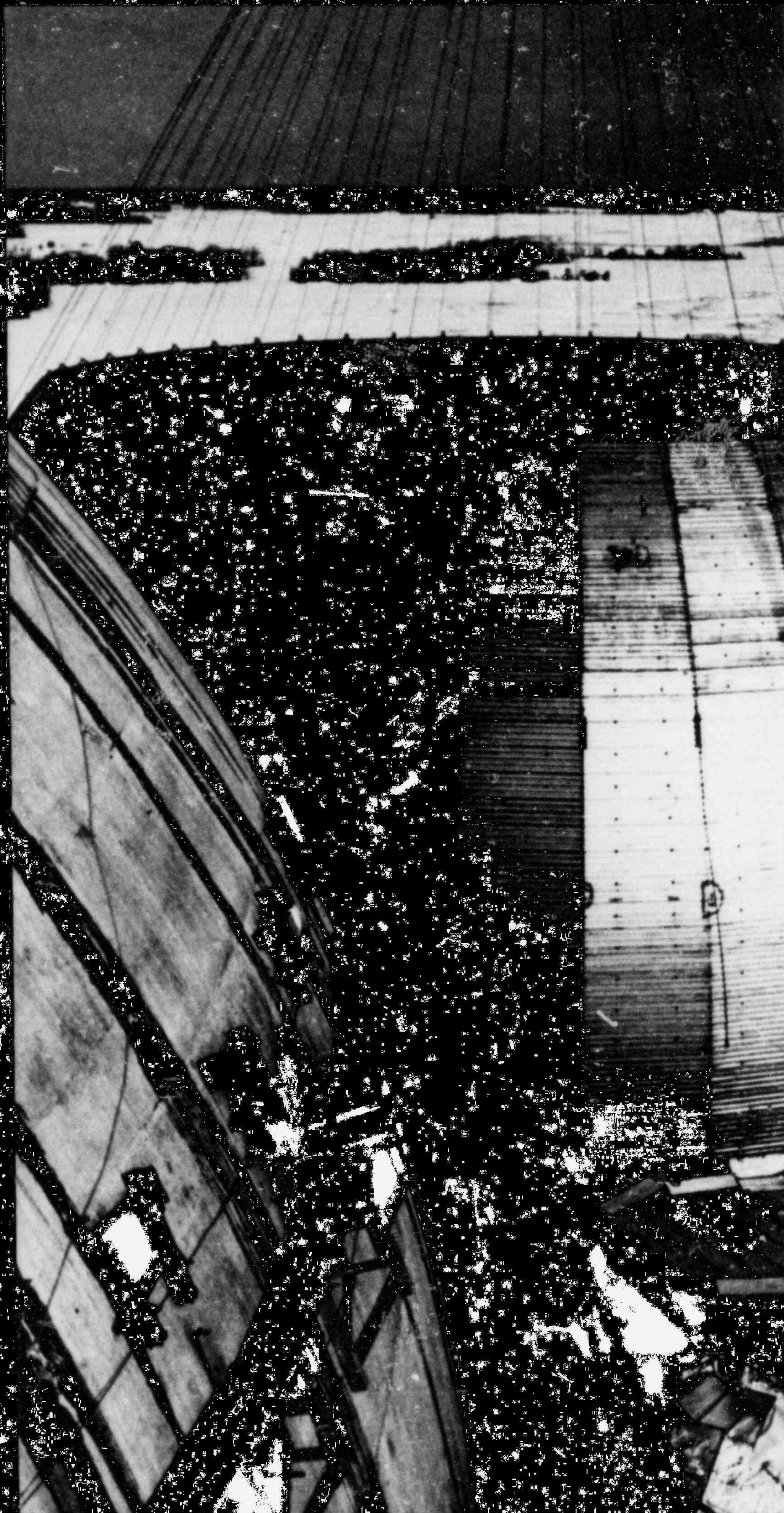
In May, the Nuclear Regulatory Commission (NRC) began the process that will eventually lead to an operating license decision for Seabrook Station.

In September, following several prehearing sessions, the Atomic Safety and Licensing Board of the NRC admitted seven of 12 groups that had asked for intervenor status in the licensing hearings. The Board also limited the issues that can be raised in those hearings to questions that concern the monitoring of radioactive emissions, control room design, training and qualifications of employees and emergency and evacuation procedures. Hearings are currently scheduled for mid-1983.

In December, 1982, the NRC staff released its Final Environmental Impact Statement. That statement pointed out that after weighing the environmental, economic, technical and other benefits against environmental and economic costs, and after considering available alternatives at the licensing stage, the action called for was the issuance of operating licenses for both Seabrook units.

Projected Capitalization and Short-Term Debt 1983 To 1990 (millions of dollars)





A structure within a structure, and a major milestone toward the completion of Unit 1, workers at Seabrook Station place the form for the containment enclosure dome. The outer structure encloses the containment building for Unit I which was completed in October of 1982. With the form in place, reinforcing steel will be installed, then concrete will be poured to complete the double containment structure.

The statement also said that Seabrook Station would improve PSNH's and New England's ability to provide reliable electric service and that the overall socioeconomic effect of the plant would be beneficial.

The Final Environmental Statement will be a key document when the NRC Board opens licensing hearings this coming year.

Seabrook Station's New Completion Cost and Schedule Estimate

In November, the Company announced that, following an extensive, 15,000 man-hour review, a new completion cost and schedule estimate for Seabrook Station had been developed.

According to the estimate report, Seabrook Station would be completed at a total cost of $5.12 billion, with Unit 1 being completed in December, 1984, and Unit 2 in March, 1987.

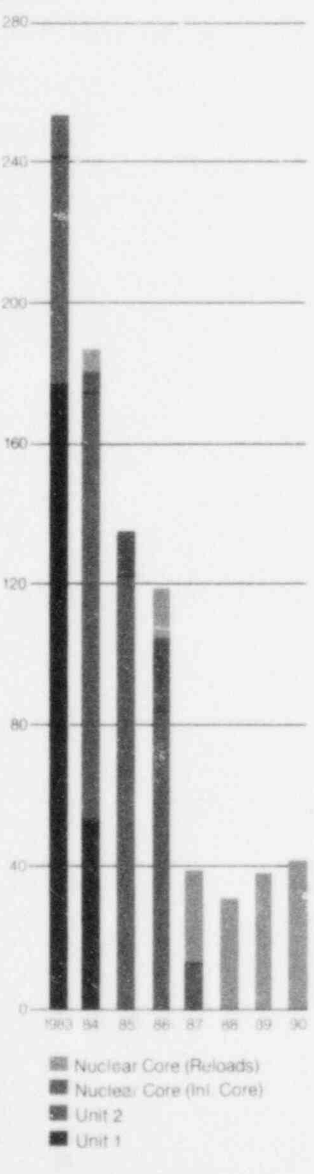
The new estimate represented a $1.56 billion increase in the cost of the project and an extension of 10 months to the completion dates for both units from the previous estimate announced in April, 1981.

The increase in the cost estimate is attributed to a number of factors. Included are: costs due to increases in quality assurance; added costs due to deferral of some work originally scheduled to be performed on the units in 1980 and 1981; costs associated with increased quantities of materials and labor; additional financing costs; cost increases due to added design and engineering complexities; and other, miscellaneous costs.

Increases in design and engineering complexities were caused primarily by changes made necessary by new regulations, upgraded interpretations and potential interpretations of regulations projected by the project architect/engineer and construction manager, United Engineers and Constructors.

Forecast of Seabrook Yearly Construction Expenditures

PSNH Share
(millions of dollars)



Seabrook Station Completion Cost and Schedule Estimate

Increases from the estimate of April, 1981

Materials and labor	$122 million
Increased design and engineering complexities	$459 million
Increased quality assurance requirements	$ 53 million
Added costs due to deferral of some work on the units in 1980 and 1981	$324 million
Other	$111 million
Additional financing costs (AFUDC)	$490 million
Total Increases	**$1.56 billion**
Estimate of April, 1981	**$3.56 billion**
TOTAL OF NOVEMBER, 1982 ESTIMATE	**$5.12 billion**
Additional costs associated with estimated four month delay of Unit 2	$120 million
Current Project Cost Total	**$5.24 billion**

During 1982, the final steps toward the eventual conversion of three of four oil-fired units to coal at the Company's Schiller Station, left, were initiated. The conversion project is slated to be completed in December, 1984.

Immediately following the announcement of the estimate, the Company initiated action by arranging to have the estimate reviewed by an independent, nationally-recognized organization, and by instructing the project engineer to develop an ongoing estimate with monthly updates so that the Company could be equipped continually with the most up-to-date information on the project's estimated completion cost and schedule.

After thorough analysis of the new estimate by the Company, during which a number of options, including maintaining current schedules and various delay alternatives for Unit 2 were considered, management recommended, and the Seabrook joint owners approved for 1983, a construction program for Unit 2 calling for a reduced level of construction in 1983.

The approved 1983 construction schedule for Unit 2 represents a change from that called for in the November, 1982, estimate. In order to meet the unit's scheduled completion date of March, 1987, as outlined in that estimate, the work level on Unit 2 would have to accelerate in 1983. However, conditions dictated that a lower work level, similar to the level of activity in 1982, be maintained. At this lower level, four months will probably be added to the completion date of Unit 2. However, work on Unit 1 continues on the schedule called for in the new estimate, with a completion date of December, 1984.

Activity in Hydropower Development and Oil to Coal Conversion Accelerates

In 1982, the Company commissioned two new hydroelectric generating units at its Garvins Falls Hydroelectric Station. The two new units were the first to be installed by the Company since 1948. The new units are now supplying enough electricity to meet the needs of 2,600 households.

The Company also began a $5.7 million project to double the existing generating capacity of its Eastman Falls Hydroelectric Station, located in West Franklin, NH. The project involves replacing one of the station's two existing generating units with a new and larger one and the overhaul of a second unit. When completed in the fall of 1983, the Eastman Falls Station will save approximately 22,000 barrels of oil yearly.

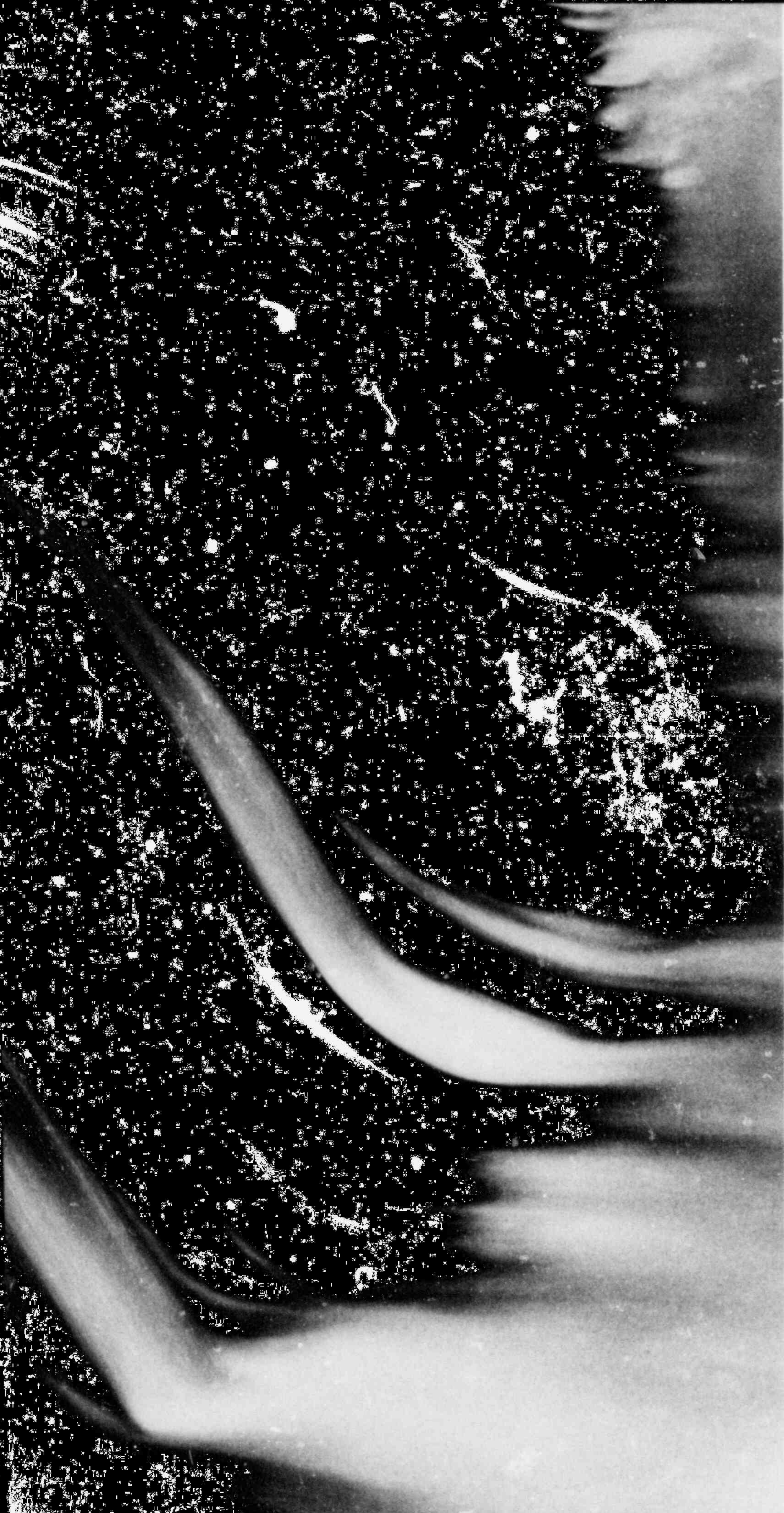
The Company has also applied to the Federal Energy Regulatory Commission for a license to build a new hydroelectric station at an existing dam located on the Androscoggin River in northern New Hampshire.

During 1982, the Company continued to vigorously support the private development of supplemental hydropower through power purchase agreements with private hydro station developers.

The Company was also active during the past year in the conversion of a portion of its oil-fired generation to coal.

During 1982, the final steps toward the eventual conversion of three of four oil-fired units were initiated. The units to be converted are located at the Company's 180-megawatt Schiller Station in Portsmouth, NH. The $44.1 million conversion project is slated to have one unit operational in August, the second in October, and the third in December, 1984.

Through progress in the completion of Seabrook Station, the addition of economically viable hydropower and the conversion of oil-fired generation to coal, the Company continued, in 1982, to realign its generating mix away from undependable and expensive foreign oil generation and toward more economical and stable sources of generation that will characterize the supply of energy into the next century.



Harnessing New Hampshire's rivers is another major part of the Company's plan to provide secure energy sources for the future. Left, water rushes over the dam at the Company's Garvins Falls Hydroelectric Station. In 1982, the Company commissioned two new hydroelectric generating units at Garvins Falls; began a $5.7 million project to double existing generating capacity at its Eastman Falls Hydroelectric Station; and applied to the Federal Energy Regulatory Commission for a license to build a new hydroelectric station at an existing dam located in northern New Hampshire.

Statement of Management

The financial statements and related financial data contained in this Annual Report have been prepared by management based upon currently available facts and circumstances and management's best estimates and judgments of known conditions. These statements have been prepared in conformity with generally accepted accounting principles as applicable to a regulated electric utility.

The Company maintains a system of internal accounting control which provides management with reasonable assurance that the Company's assets are safeguarded and that transactions are executed and recorded in accordance with management authorization. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not, in the judgment of management, exceed the benefits derived. This system of internal accounting control is monitored by a staff of internal auditors and supported by written policies and procedures administered by qualified and suitably trained personnel.

The Board of Directors, through its Audit Committee comprised solely of non-employee directors, meets regularly with management, the internal audit staff and the Company's independent certified public accountants to review their activities and responsibilities. Both the internal audit staff and the independent certified public accountants have free access to the Audit Committee, without management present, to present the results of their audit work.

The independent certified public accountants, Peat, Marwick, Mitchell & Co., are engaged to examine the Company's financial statements in accordance with generally accepted auditing standards.

R J Harrison

R.J. Harrison
President and
Chief Executive Officer

C.L. Bayless
Financial Vice President

Report of Independent Certified Public Accountants

The Board of Directors
Public Service Company of New Hampshire:

We have examined the balance sheets and statements of capitalization of Public Service Company of New Hampshire as of December 31, 1982 and 1981 and the related statements of earnings, changes in financial position and changes in common stock equity for each of the years in the three-year period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Public Service Company of New Hampshire at December 31, 1982 and 1981 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Boston, Massachusetts
February 15, 1983

Management's Discussion and Analysis of Financial Condition and Results of Operations

Construction Program and Financing Requirements

The Company is engaged in a large construction program, the major component of which is its 35.56942% share of the 2300 megawatt Seabrook Nuclear Power Plant located at Seabrook, New Hampshire (the "Seabrook Plant"). Unit 1 is estimated to commence commercial operation in December, 1984, and Unit 2 in July, 1987. (See Note 8 of Notes to Financial Statements).

In November, 1982, a review of the Seabrook Plant construction schedule and cost estimate was completed. As a result of this review, the total cost of the plant upon completion was increased to $5,120,000,000, an increase of 43% over the previous estimate completed in April, 1981. In view of this increase, the Company and the other participants in the Plant have agreed that the construction level on Unit 2 will be reduced during 1983, below the level assumed in the November estimate. This reduced level of construction will increase the total estimated cost of the Seabrook Plant to $5,242,000,000.

The Seabrook participants have retained independent construction consultants to review the November estimate, and their initial presentation to the Seabrook participants regarding the estimated costs indicated that the process by which the cost estimate was derived was sound and that the estimate appeared reasonable based on the estimated completion dates, but that the Company's contingency was at the low end of the industry range. An additional report on the consultant's review of the estimated completion dates is expected to be made by late April, 1983.

The estimated cost of the Plant is now reviewed on a monthly basis by the architect/engineer, and no change in the total estimated cost as a result of this review has been necessary through February, 1983.

The Company's construction program has been the major reason for the increase in Unfinished Construction and Capitalization. This increase is expected to continue until the units are in commercial operation.

The Company's current estimated construction expenditures, exclusive of Allowance for Funds Used During Construction (AFUDC) for 1983 through 1987 (approximately 70% of which are for the Seabrook Plant and the remainder for other projects), are as follows:

1983	$ 331,300,000
1984	265,400,000
1985	192,500,000
1986	160,300,000
1987	73,900,000
Total	$1,023,400,000

Actual construction expenditures have substantially exceeded past estimates and could exceed present estimates because of changes in the Company's plans, cost increases, delays resulting from regulatory and licensing proceedings, expiration and renegotiation of labor contracts, and other factors. It is also possible that additional expenditures may be required to meet regulatory and environmental requirements at the Seabrook Plant and at the Company's other generating facilities.

Throughout the period of construction of the Seabrook Plant, the Company must continue its permanent and long-term financing program in order to repay short-term bank borrowings incurred largely to finance such construction. Adequate and timely rate increases, continued availability of short-term bank credit and external financing are essential to enable the Company to continue its construction program and its business operations.

The Company's earnings will, until completion of Unit 1 of the Seabrook Plant and its inclusion in rate base, consist primarily of AFUDC. AFUDC is the current cost of funds invested in a construction project expected to be recovered from customers over the service life of the project through revenues, when the project is completed and included in rate base. Since AFUDC does not represent cash earnings, cash for the payment of interest and dividends will need to be provided in large part by external financing until Unit 1 is included in rate base.

In 1982, the Company raised approximately $248,400,000: $49,800,000 by the sale of Common Stock through a public offering in April and through operation of the Company's Dividend Reinvestment and Common Stock Purchase Plan, $48,100,000 by the sale in June of General and Refunding Mortgage Bonds, $20,000,000 under a Bankers' Acceptance facility financing for the Company's inventories of fossil fuels under which no amounts are currently outstanding pending regulatory approval of the renegotiation of the collateral provisions thereof, $57,600,000 by the sale in September of Preferred Stock and about $72,900,000 by the sale in October of Debentures. In December, 1982, the Company entered into an agreement with a major contractor for the Seabrook Plant (subject to receipt of necessary regulatory and other approvals) providing for loans to the Company of $1,500,000 per month in 1983 and $1,000,000 per month in 1984, repayable in 1985. Hearings being held by the NHPUC with respect to this loan are not completed and the Company is unable to predict whether the NHPUC will approve the agreement.

The success of the external financing program has continued through the early part of 1983, during which time the Company has raised approximately $188,675,000 through the sale of 5,000,000 shares of Common Stock in January and the sale of $100,000,000 of Debentures in February. During the remainder of 1983 the Company plans to raise an additional amount of approximately $300,000,000 and during 1984 approximately $375,000,000 through the issuance of Preferred and Common Stocks, nuclear fuel financings, bonds, debentures, pollution control revenue bonds and other financings.

Under New Hampshire law, Unit 1 of the Seabrook Plant may not be included in rate base until completion of its construction and commencement of commercial operation, currently estimated for December, 1984. At that time, the Company expects that substantial retail rate increases will be requested. The Company's cash flow for the 1985-1987 period should be substantially improved and its permanent financing requirements for the period reduced below those for the 1983-1984 period, depending upon when and to what extent the cost of Seabrook Unit 1 is included in rate base. Conversely, a material delay beyond December, 1984 in either the commercial operation of Unit 1 or rate base treatment of the costs of the unit would substantially increase the Company's financing requirements for the 1985-1987 period.

Results of Operations

Revenues declined 4% for 1982 after increasing 26% in 1981 and 20% in 1980. As megawatt-hour sales declined only slightly during the three years, the change in revenues resulted mainly from rate changes which are discussed in Note 2 of Notes to Financial Statements. In 1982, energy cost recovery revenues declined more than non-energy revenues increased. In 1981 and 1980 both energy cost recovery and non-energy revenues had increased.

Fuel and purchased power expense, on which energy cost recovery revenues are based, also has a significant effect on operating expenses. This expense was 59%, 65% and 62% of total operating expenses for 1982, 1981 and 1980, respectively.

The following table provides an indication of the effect of changes in the major components of this cost:

	Increase (Decrease) From Prior Year		
	1982	1981	1980
Fuel and Purchased Power Expense	(12%)	36%	27%
Average Cost of Oil Per Barrel	(13%)	34%	46%
Average Cost of Coal Per Ton	10%	8%	5%

Operating expenses other than energy costs have increased 12%, 19% and 16% for 1982, 1981 and 1980, respectively, reflecting for the most part the continued but declining impact of inflation on wages, materials and taxes.

Total federal and state taxes on income increased only slightly in 1982, reflecting little change in the components of taxable income. Taxes in 1981 decreased significantly from 1980 due to a change in the method of accounting for AFUDC adopted in 1981.

During 1982, AFUDC increased considerably due to an increase in unfinished construction at the Seabrook Plant. The decrease in AFUDC in 1981 was the result of the reduction in the Company's percentage ownership interest in the Seabrook Plant and a change to the net-of-tax method of accounting for AFUDC adopted in 1981.

Although interest expense has increased each year since 1980, some moderation, due to declining interest rates, was evident in 1982. The balance of debt outstanding increased in all years due to the capital requirements of the construction program.

Net income increased in each of the three years since 1980; however, there was not a corresponding increase in earnings per share. Additional stock issues have increased preferred dividend requirements and the average number of common shares outstanding, resulting in a decrease in earnings per share in 1981 and holding down the level of increase in 1982 and 1980.

Inflation continued to affect Company operations, since under current regulatory practice the investment in utility plant is recovered at historical cost but replaced, as necessary, at current cost. See Note 10 of Notes to Financial Statements, which reflects the approximate effects of inflation on Company operations. The data provided in Note 10 have been prepared and presented in conformity with guidelines established by the Financial Accounting Standards Board and should be viewed as experimental and only approximations of certain effects of inflation on operations of the Company.

The results of operations discussed above are not necessarily indicative of future earnings. It is expected that higher operating costs and carrying charges on increased investment in plant, if not offset by a similar increase in operating revenues (produced either by periodic rate relief or increases in kilowatt-hour sales), will adversely affect future earnings. Growth in KWH sales will be dependent on the rate of economic growth in New Hampshire, weather and the use of alternate energy sources.

Statements of Earnings

	For the Year Ended December 31, 1981	1980
	(Thousands of Dollars)	
Operating Revenues (Note 2)	$440,884	$351,247
Operating Expenses		
Operation		
Fuel	176,665	137,969
Purchased and Interchanged Power	78,582	49,279
Other Operating Expenses	47,199	39,695
Maintenance	27,162	21,395
Depreciation	18,663	17,425
Federal and State Taxes on Income (Note 3)	28,215	22,472
Other Taxes, Principally Property Taxes	17,347	15,705
Total Operating Expenses	393,833	303,940
Operating Income	47,051	47,307
Other Income and Deductions		
Allowance for Equity Funds Used During Construction (Note 1)	50,053	34,487
Federal Taxes on Income (Note 3)	23,527	(147)
Equity in Earnings of Affiliated Companies	1,536	877
Other—Net	2,672	1,639
Total Other Income and Deductions	77,788	36,856
Income Before Interest Charges	124,839	84,163
Interest Charges		
Interest on Long-Term Debt	50,229	39,711
Other Interest	25,989	21,847
Allowance for Borrowed Funds Used During Construction (Note 1)	(28,566)	(37,242)
Net Interest Charges	47,652	24,316
Net Income	77,187	59,847
Preferred Dividend Requirements	19,169	14,022
Earnings Available for Common Stock	$ 58,018	$ 45,825
Weighted Average Shares Outstanding (000's)	21,883	16,539
Earnings Per Share of Common Stock	$2.65	$2.77
Dividends Per Share of Common Stock	$2.12	$2.12

See accompanying Notes to Financial Statements.

Balance Sheets

Assets

	December 31, 1981
	(Thousands of Dollars)
Utility Plant at Original Cost	
Electric Plant	$ 563,071
Less: Accumulated Provision for Depreciation	173,695
	389,376
Unfinished Construction (Principally the Seabrook Plant)	772,526
Net Utility Plant	1,161,902
Investments	
Nuclear Generating Companies	10,689
Finance Subsidiary	10,803
Real Estate Subsidiary	5,530
Other, at Cost	184
Total Investments	27,206
Current Assets	
Cash and Temporary Investments	5,119
Accounts Receivable—Net	44,002
Unbilled Revenue	10,501
Fuel, Materials and Supplies, at Cost (Note 4)	30,037
Other	19,268
Total Current Assets	108,927
Other Assets	
Funds Deposited with Trustee (Note 8)	3,041
Cost of Cancelled Pilgrim Unit 2 Project (Note 8)	15,654
Other	11,619
Total Other Assets	30,314
	$1,328,349

Capitalization and Liabilities

Capitalization (See separate statements)	
Common Stock Equity	$ 471,821
Preferred Stock	
With Mandatory Redemption Requirements	120,000
Without Mandatory Redemption Requirements	49,643
Long-Term Debt	449,071
Notes Payable Refinanced by Common Stock Issue (Notes 4, 7)	—
Total Capitalization	1,090,535
Current Liabilities	
Notes Payable—Banks (Note 4)	125,600
Long-Term Debt to be Retired Within One Year	5,000
Preferred Stock Redemption Due Within One Year	—
Accounts Payable	31,608
Accrued Taxes	6,409
Accrued Interest	16,315
Other	6,506
Total Current Liabilities	191,438
Deferred Credits	
Accumulated Deferred Investment Tax Credits	20,456
Accumulated Deferred Taxes on Income (Note 3)	25,242
Other (Note 3)	678
Total Deferred Credits	46,376
Commitments and Contingencies (Note 8)	
	$1,328,349

See accompanying Notes to Financial Statements.

Statements of Capitalization

				December 31, 1981 (Thousands of Dollars)
Common Stock Equity				
Common Stock–$5 Par Value				
Authorized–40,000,000 Shares				
Outstanding–26,523,683 Shares in 1982 and 23,19[illegible],[illegible]39 in 1981				$115,978
Other Paid-In Capital				261,924
Capital Stock Expense				(7,990)
Retained Earnings (a)				101,909
Total Common Stock Equity				471,821
Cumulative Preferred Stock				
Par Value $100 Per Share–Authorized 1,350,000 Shares				
–Outstanding 631,488 Shares				
Par Value $25 Per Share–Authorized 8,000,000 Shares				
–Outstanding 6,600,000 Shares				
Dividend	**Par Value**	**Shares Outstanding**	**Call Price**	
With Mandatory Redemption Requirements (b)				
7.64%	$100	120,000	$105.35	12,000
9.00	100	169,200	106.75	18,000
11.24	25	1,200,000	27.81	30,000
17.00	25	1,200,000	29.25	30,000
15.00	25	1,200,000	28.75	30,000
15.44	25	2,400,000	28.86	—
				120,000
Less: Preferred Stock Redemption Due Within One Year				—
				120,000
Without Mandatory Redemption Requirements				
3.35%	$100	102,000	$100.00	10,200
4.50	100	75,000	102.00	7,500
5.50	100	15,288	100.00	1,943
7.92	100	150,000	103.96	15,000
11.00	25	600,000	27.00	15,000
				49,643
Total Cumulative Preferred Stock–Net				169,643
Notes Payable Refinanced by Common Stock Issue (Notes 4,7)				—

(a) Pursuant to terms of the General and Refunding Mortgage Indenture, dividends may not be paid on the Common Stock in excess of net income accumulated after January 1, 1978 less the aggregate amount of all dividends paid or declared on the preferred stock of the Company during such period plus $32,000,000. At December 31, 1982, retained earnings of $91,607,000 were not subject to dividend restriction.

(b) The annual Sinking Fund requirements for Preferred Stock with mandatory redemption requirements are as follows: 1983–$1,080,000, 1984–$1,560,000, 1985–$6,060,000, 1986–$6,060,000 and 1987–$9,060,000.

	December 31, 1981
	(Thousands of Dollars)
Long-Term Debt (c)	
First Mortgage Bonds (d)	
Series **Rate** **Maturity**	
H 3¼% 1984	$10,237
I 3⅞ 1986	6,886
M 4⅝ 1992	21,668
N 6⅛ 1996	15,638
O 6¼ 1997	13,871
P 7⅛ 1998	13,950
Q 9 2000	18,814
R 7⅝ 2002	19,073
S 9 2004	19,333
U 10¾ 1985	14,505
V 9⅛ 2006	14,775
W 10⅞ 1993	10,000*
X 12 1999	9,302*
Y 18 1939	—
Less: First Mortgage Bonds (*) Pledged as Security for General and Refunding Mortgage Bonds	(19,302)
Total First Mortgage Bonds	168,750
General and Refunding Mortgage Bonds	
A 10⅞% 1993	60,000
B 12 1999	60,000
C 14½ 2000	30,000
D 17 1990	23,000
E 18 1989	—
Promissory Note; Interest at 116% of a Specific Bank's Prime Rate Plus 0.25%; Due 1983 (Notes 4,7)	25,000
Eurodollar Term Loan; Interest at the Rate of ¾% over the London Interbank Offered Rate for Three or Six Month Eurodollar Deposits, Due 1984	55,000
Promissory Notes, 17%, Due 1986	30,000
Pollution Control Revenue Bonds, 9%, Due 1984	5,800
Debentures, 15¾%, Due 1988	—
Notes Payable Refinanced by Debenture Sale (Notes 4,7)	—
Total Long-Term Debt	457,550
Less: Long-Term Debt to be Retired Within One Year	(5,000)
Unamortized Premium and Discount	(3,479)
Long Term Debt–Net	449,071
Total Capitalization	$1,090,535

See accompanying Notes to Financial Statements.

(c) The Long-Term Debt Maturities and annual Sinking Fund requirements are as follows: 1983–$6,087,000, 1984–$73,153,000, 1985–$21,144,000, 1986–$43,682,000 and 1987–$7,058,000. Under the terms of the First Mortgage Indenture and the General and Refunding Mortgage Indenture, substantially all utility property of the Company is subject to the liens thereof.

(d) Due to certain restrictions in the Company's First Mortgage Indenture, no significant amount of First Mortgage Bonds may be issued until an operating license is obtained for Seabrook Unit 1, not anticipated before 1984.

Statements of Changes in Common Stock Equity for the Three Years Ended December 31, 1982

	Shares	Amount at Par Value	Other Paid-In Capital	Capital Stock Expense	Retained Earnings	Total
			(Thousands of Dollars)			
Balance–December 31, 1979	13,969,133	$ 69,846	$170,355	$ (4,090)	$ 76,649	$312,760
Add (Deduct)						
Net Income					59,847	59,847
Cash Dividends						
Common Stock					(34,840)	(34,840)
Preferred Stock					(12,822)	(12,822)
Issuance of Common Stock	4,234,789	21,174	44,639	(375)		65,438
Issuance Cost of Preferred Stock				(2,951)		(2,951)
Balance–December 31, 1980	18,203,922	$ 91,020	$214,994	$ (7,416)	$ 88,834	$387,432
Add (Deduct)						
Net Income					77,187	77,187
Cash Dividends						
Common Stock					(44,933)	(44,933)
Preferred Stock					(19,179)	(19,179)
Issuance of Common Stock	4,991,717	24,958	46,930	(453)		71,435
Issuance Cost of Preferred Stock				(121)		(121)
Balance–December 31, 1981	23,195,639	$115,978	$261,924	$ (7,990)	$101,909	$471,821
Add (Deduct)						
Net Income					91,623	91,623
Cash Dividends						
Common Stock					(54,202)	(54,202)
Preferred Stock					(20,998)	(20,998)
Issuance of Common Stock	3,328,044	16,640	33,659	(380)		49,919
Issuance Cost of Preferred Stock				(2,538)		(2,538)
Amortization of Redeemed Preferred Stock Issuance Cost				7	(7)	—
Balance–December 31, 1982	26,523,683	$132,618	$295,583	$(10,901)	$118,325	$535,625

Note: On January 20, 1983, the Company sold to the public an additional 5,000,000 shares of common stock (See Note 7).

See accompanying Notes to Financial Statements.

Statements of Changes in Financial Position

	For the Year Ended December 31, 1981	1980
	(Thousands of Dollars)	
Source of Funds		
From Operations		
Net Income	$ 77,187	$ 59,847
Principal Non-Cash Charges (Credits) to Income		
Depreciation	18,663	17,425
Allowance for Equity Funds Used During Construction	(50,053)	(34,487)
Deferred Taxes and Investment Credit Adjustments	4,205	17,941
Total from Operations	50,002	60,726
From Outside Sources		
Sale of Long-Term Debt	57,000	79,995
Sale of Preferred Stock	—	60,000
Sale of Common Stock	70,214	64,615
Change in Notes Payable-Banks	17,250	(5,750)
Sale of Portion of Millstone Unit 3	—	—
Subsequent Financings Used to Reduce Notes Payable-Banks	—	—
Total from Outside Sources	144,464	198,860
Decrease in Working Capital	—	30,010
Total	$194,466	$289,596
Application of Funds		
Property Additions	$124,816	$232,853
Allowance for Equity Funds Used During Construction	(50,053)	(34,487)
Dividends	64,112	47,662
Reduction of Long-Term Debt	5,986	26,153
Reduction of Preferred Stock	—	—
Repayment of Advances from Joint Project Participants	4,595	6,033
Increase in Working Capital	36,414	—
Funds Deposited with Mortgage Trustee	3,041	(13)
Deferred Collection of Fuel Costs	(6,901)	9,776
Increase in Investments	12,427	1,462
Other Applications–Net	29	157
Total	$194,466	$289,596
Increase (Decrease) in Working Capital Other than Notes Payable-Banks and Advances from Participants		
Cash and Temporary Investments	$ 1,390	$ 1,592
Receivables	1,617	14,288
Inventories	(7,085)	5,120
Long-Term Debt to be Retired Within One Year	19,467	(23,912)
Preferred Stock Redemption Due Within One Year	—	—
Accounts Payable	25,644	(17,636)
Accrued Taxes	(228)	(3,088)
Other	(4,391)	(6,374)
Total	$ 36,414	$(30,010)
Composition of Property Additions		
Jointly-Owned Nuclear Facilities	$ 91,600	$187,927
Nuclear Fuel	6,669	17,405
Other	26,547	27,521
Total	$124,816	$232,853

See accompanying Notes to Financial Statements.

1. Summary of Accounting Policies

Regulations and Operations

The Company is subject, as to rates, accounting and other matters, to the regulatory authority of the New Hampshire Public Utilities Commission (NHPUC), the Federal Energy Regulatory Commission (FERC) and, to a lesser extent, the public utilities commissions in other New England states where the Company does business.

Investments

The Company follows the equity method of accounting for its investments in nuclear generating companies, a wholly-owned overseas finance subsidiary and a wholly-owned real estate subsidiary. The Company owns four to seven percent of each of four New England nuclear generating companies and, pursuant to purchased power contracts, is entitled to its ownership percent of total plant output and is obligated to pay a similar share of operating expenses and returns on invested capital. Approximately 9.9%, 9.7% and 7.4% of the Company's total energy requirements were furnished by these companies in 1982, 1981 and 1980, respectively.

Utility Plant

Provision for depreciation of utility plant is computed on a straight-line method at rates based on estimated service lives and salvage values of the several classes of property. The depreciation provisions were equivalent to overall effective rates of 3.65%, 3.61%, and 3.48% of depreciable property for 1982, 1981, and 1980, respectively.

Maintenance and repairs of property are charged to maintenance expense. Replacements and betterments are charged to utility plant. At the time properties are retired, the cost of property retired plus costs of removal less salvage are charged to the accumulated provision for depreciation.

Operating Revenues

Revenues are based on billing rates, authorized by applicable regulatory commissions, which are applied to customers' consumption of electricity. These rates include estimates of the cost of energy incurred by the Company in the generation or purchase of electricity. To the extent that energy cost estimates differ from actual costs incurred, the differences are deferred and refunded or charged to customers through periodic rate adjustments. The Company records an estimate of revenue for service rendered but not billed.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is the estimated cost, during the period of construction, of funds invested in the construction program which is not recovered from customers through current revenues. Such allowance is not realized in cash currently but under the rate making process the amount of the allowance is expected to be recovered in cash over the service life of the plant in the form of increased revenue collected as a result of higher plant costs.

The Company capitalized AFUDC at net-of-tax annual rates of 11.6% for 1982 and 11% for 1981, and at a gross annual rate of 12% for 1980.

2. Rate Making Matters

On December 30, 1982, the Company filed with the NHPUC a request for permanent rates designed to increase annual revenues by approximately $33,400,000 (9.45%) based on a test year ended September 30, 1982, and requested that the new rates become effective February 1, 1983. In accordance with statutory procedure, the NHPUC has suspended the effectiveness of the requested rates pending hearings. Under New Hampshire law, the Company would be entitled to place the requested rates in effect under bond in August, 1983, if the NHPUC has not acted on the Company's request by then.

During 1982, the NHPUC issued rate orders designed to increase annual non-energy revenues by approximately $9,500,000 effective July, 1982 and $28,800,000 effective May, 1981.

During 1980, the NHPUC issued rate orders which required the Company to refund approximately $11,300,000 to customers and were designed to increase annual non-energy revenues by approximately $18,355,000. The refunds were recognized as a reduction in revenues of $4,700,000 in both 1982 and 1981 and $1,900,000 in 1980.

In 1982, New Hampshire retail customers were billed a levelized energy cost rate based on six-month projected data for fuel and purchased power expense. In 1981 and 1980 energy costs were billed based on estimates adjusted quarterly. Other retail customers and wholesale customers are billed under fuel adjustment clauses. The proportion of revenues from prime sales associated with energy costs were 47.8% in 1982, 54.2% in 1981 and 45.8% in 1980. The differences reflect changes in the cost of energy.

The components of income tax expense are as follows:

	1982	1981	1980
	(Thousands of Dollars)		
Included in Operating Expenses			
Current—Federal	$ 24,630	$ 22,153	$ 15
State	3,082	3,834	4,518
	27,712	25,987	4,533
Deferred—Federal	3,109	5,533	24,516
State	—	—	(620)
	3,109	5,533	23,896
Investment Tax Credit Adjustments	(1,396)	(3,305)	(5,957)
	$ 29,425	$ 28,215	$22,472
Included in Other Income and Deductions			
Current—Federal	$(24,706)	$(23,733)	$ 145
Deferred—Federal	45	206	2
	$(24,661)	$(23,527)	$ 147
Total Income Tax Expense			
Federal	$ 1,682	$ 854	$18,721
State	3,082	3,834	3,898
	$ 4,764	$ 4,688	$22,619

State tax expense included above is primarily New Hampshire franchise tax. In October 1982, the New Hampshire Supreme Court decided in favor of the Company in overturning the basis for determining this tax. Accordingly, the Company ceased accrual of the tax as of October, 1982. As a result of this decision, the Company's liability for the tax has been reduced by approximately $13,200,000. This amount has been classified as a deferred credit at December 31, 1982 pending ultimate disposition by regulatory authorities of the extent to which refunds to customers will be required. Upon final determination state tax expense will be reduced by $13,200,000 and revenues reduced by the amount of refunds ordered.

Investment tax credits earned are deferred and amortized to income over the lives of the related properties. At December 31, 1982 the Company had investment tax credits available to carry forward of approximately $58,000,000 which expire between 1994 and 1997, and a tax net operating loss carry forward of approximately $3,600,000 which expires in 1997.

The tax effect of differences between pretax income in the financial statements and income subject to tax, which are the result of timing differences, are accounted for as prescribed by and in accordance with the rate-making policies of the NHPUC. Accordingly, provisions for deferred income taxes are recognized for all specified timing differences. Taxes attributable to other timing differences are flowed through to net income as adjustments of income tax expense. Provisions for deferred income taxes are recognized for the following timing differences:

	1982	1981	1980
	(Thousands of Dollars)		
Difference Between Book and Tax Depreciation–Normalized	$ 7,910	$ 4,554	$ 4,203
Accrued and Unbilled Fuel Adjustment Charges	(301)	(298)	(5,957)
Deferred Fuel Costs	2,104	(5,443)	4,174
Costs Associated with the Cancellation of Pilgrim Unit 2 (Note 8)	124	5,326	—
The Interest Component of Allowance for Funds Used During Construction	—	—	17,093
Recoupment Revenue Recoverable	(3,302)	3,302	—
Investment Tax Credit Applied to Deferred Taxes	—	—	4,383
Accrued State Taxes	(1,419)	(1,772)	—
Unused Tax Net Operating Loss Carry Forward	(1,642)	—	—
Other	(320)	70	2
	$ 3,154	$ 5,739	$23,898

The principal reasons for the differences between total income tax expense and the amount calculated by applying the federal income tax rate (46%) to income before income tax are as follows:

	1982	1981	1980
	(Thousands of Dollars)		
Income Before Income Tax	$96,387	$81,875	$82,466
Expected Tax Expense	$44,338	$37,663	$37,934
Increases (Reductions) in Taxes Resulting from			
Overheads Charged to Construction and Expensed for Tax Purposes	(31,107)	(23,025)	(16,071)
Net-of-Tax Method of Recording AFUDC	(13,822)	(13,140)	—
Difference between Book and Tax Depreciation—Not Normalized	1,505	1,343	742
State Taxes Net of Federal Income Tax	1,665	2,070	2,105
[illegible]ductions	2,185	(223)	(2,091)
Total Income Tax Expense	$ 4,764	$ 4,688	$22,619

4. Short-Term Borrowings

The Company uses borrowings from banks as an interim method of financing construction and working capital needs. At December 31, 1982, the Company had line of credit agreements with New Hampshire banks aggregating $3,950,000 and a revolving credit agreement with other commercial banks which permits the Company to borrow up to $160,000,000 through November 15, 1983 subject to periodic review by the banks; amounts outstanding under the agreement mature on November 16, 1983. The Company pays commitment fees on the revolving credit agreement and maintains compensating balances for certain line of credit agreements. The effective cost of borrowing under the revolving credit agreement, including fees and assuming the available credit is fully utilized, is 116% of the prime interest rate of a specified bank.

The Company has a term loan of $25,000,000 with seven of the commercial banks participating in the revolving credit agreement. The term loan, which matured on January 11, 1983, has been extended to April 11, 1983, and the Company is currently negotiating with the banks for its renewal. In connection with that renewal, it is anticipated that the Company's revolving credit agreement under which each advance is currently subject to review by the banks, will be amended to specify that if at the time an advance is requested, the Company's cash flow, cumulative financings or construction expenditures for 1983, or its capital commitments for 1984, vary by certain specified amounts or percentages from projections set forth in schedules furnished to the banks, waivers of such variations by banks holding two-thirds in principal amount of such credits would be a prerequisite to such advance. The effect of adherence to these schedules is that advances outstanding at any one time during 1983 under the revolving credit would be substantially less than the $160,000,000 maximum specified in the credit. In addition, if at September 30, 1983 it has been determined that the reduced level of construction of Unit 2 of the Seabrook Plant instituted during 1983, will be increased during 1984 consistent with the present construction schedule, further advances under the revolving credit will require the concurrence of all the banks.

The Company has a financing arrangement with a group of banks, expiring July, 1984, which enables the Company to borrow up to $20,000,000 by collateralizing its fossil fuel inventories. Rates of the loans are based upon the current bankers' acceptance discount rate plus an acceptance commission and facility and agency fees. At December 31, 1982, the Company was unable to make further borrowings under this facility pending regulatory approval of the renegotiation of the collateral provisions thereof.

The Company has an agreement with a major contractor for the Seabrook Plant (subject to regulatory and other approvals) providing for loans to the Company in 1983 of $1,500,000 per month and $1,000,000 per month in 1984, repayable in 1985. At December 31, no loans were outstanding under this agreement. Hearings being held by the NHPUC with respect to this loan are not completed and the Company is unable to predict whether the NHPUC will approve the agreement.

Notes payable of $125,600,000 under credit agreements, $25,000,000 under the maturing term loan, and $14,000,000 under the fuel financing arrangement were excluded from current liabilities as a result of financing transactions completed subsequent to year end (See Note 7).

Information regarding short-term borrowings is as follows:

	1982	1981	1980
	(Thousands of Dollars)		
Maximum Short-Term Borrowings	$141,600	$145,600	$134,350
Average Amount Outstanding (Based on Month-End Balances)	$104,683	$110,475	$106,038
Average Interest Rate (Including Fees)			
At Year End	13.72%	18.59%	25.77%
During the Year	18.66%	22.57%	1[illegible].13%

5. Pension Plan

The Company has a non-contributory pension plan covering substantially all employees. The Company's policy is to fund current pension costs accrued. Costs were $5,242,000, $4,229,000, and $3,450,000, in 1982, 1981, 1980, respectively, and include amortization of past service costs over 25 years. Accumulated plan benefits and plan net assets for the Company's defined benefit plan as of January 1 of each year is as follows:

	1982	1981
	(Thousands of Dollars)	
Actuarial Present Value of Accumulated Plan Benefits:		
Vested	$34,242	$31,729
Nonvested	1,771	1,617
	$36,013	$33,346
Net Assets Available for Benefits	$38,460	$34,857

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9% in 1982 and 1981.

6. Leases

The Company has certain financing leases for property and equipment which are accounted for as operating leases. The capitalization of such leases would not have a material effect on the financial statements. Costs associated with leased equipment utilized in construction are capitalized as a cost of construction.

Rentals charged to expense in 1982, 1981 and 1980 were $4,463,000, $3,545,000 and $3,065,000, respectively. The Company rents properties from a wholly-owned real estate subsidiary at a current annual rental of $1,254,000. At December 31, 1982, estimated future minimum lease payments for noncancellable leases were as follows:

1983	$ 3,871,000
1984	3,799,000
1985	3,135,000
1986	2,984,000
1987	2,945,000
Thereafter	29,341,000
	$46,075,000

On January 20, 1983, the Company sold to the public 5,000,000 shares of common stock and raised approximately $91,475,000. Proceeds from the sale were used to reduce short-term borrowings. Had these shares been outstanding for the entire year 1982, earnings per share, after giving effect to the related reduction in interest expense and increase in AFUDC, would not have changed significantly.

On February 9, 1983, the Company sold $100,000,000 in principal amount of 14⅜% Debentures due 1991 and raised approximately $97,200,000.

At December 31, 1982, $164,600,000 of short-term notes payable have been excluded from current liabilities as a result of these transactions (See Note 4).

The Company's share of total expenditures included in Unfinished Construction for the jointly-owned nuclear facilities in which it is participating are as follows:

	1982	1981
	(Thousands of Dollars)	
Seabrook Unit 1 and Common Facilities	$ 745,600	$549,200
Seabrook Unit 2	223,100	166,400
Millstone Unit 3	48,400	45,600
	$1,017,100	$761,200

In order to reduce the financing burden of these projects on the Company, the Company has reduced its ownership interest in the Seabrook Plant to approximately 35.6% from 50% and Millstone Unit 3 to approximately 2.8% from 3.9%. The Company offered to sell an additional 7.5% ownership interest in the Seabrook Plant, but received no substantial responses. During 1982, the NHPUC attempted to prohibit the use of proceeds from the Company's financings for construction of Seabrook Unit 2 until completion of Unit 1 or reduction of the Company's ownership interest in the Seabrook Plant from approximately 35.6% to 28%, a level which the NHPUC believed was more consistent with the Company's financing capabilities. Upon appeal of the NHPUC's order prohibiting such use, the New Hampshire Supreme Court vacated the order, concluding that the NHPUC does not have the authority to impose such a prohibition on financings.

Funds received from the sale of a portion of Millstone Unit 3 were deposited, as required, with the Trustee under the First Mortgage Indenture. The funds are interest bearing and will remain on deposit with the Trustee until they are either applied to the purchase or redemption of outstanding First Mortgage Bonds or are returned to the Company following compliance with certain other conditions of the First Mortgage Indenture.

The Company's construction program expenditures (excluding AFUDC) are estimated to be $331,300,000 for 1983, $265,400,000 for 1984 and $426,700,000 for 1985 through 1987. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Construction Program and Financing Requirements" for a discussion of the Company's projected financing plan.

Construction of the Seabrook Plant has required numerous approvals and permits from various state and federal regulatory agencies. The process of obtaining these approvals and permits has been long and complex, has been consistently opposed by a number of intervening groups, has witnessed demonstrations at the Seabrook site and has encountered lengthy delays which have resulted in greatly increased costs for the plant.

The Company is unable to predict what effect financing problems or further administrative or court decisions relating to NHPUC, NRC or Environmental Protection Agency actions or actions of other regulatory agencies may have on the Company's ability to complete the Seabrook Plant or on the ultimate cost thereof.

The complexity of present-day electric utility technology and the extensive time required for the construction of generating facilities and for the completion of the necessary licensing and regulatory proceedings have compelled the Company, as well as other electric utilities, to make substantial investments in the construction of such facilities before the licensing and regulatory proceedings are final. While it is possible that future developments could lead to cancellation of either one or both of the units at the Seabrook Plant, the Company believes that the projected need for power in the Company's service area and in New England generally, as well as the area's need to reduce dependence on imported oil, support completion of the Seabrook Plant. Despite a NHPUC staff recommendation that the Company consider cancelling construction of Unit 2 (which in the opinion of the Company would require obtaining equivalent power from other sources), the Company believes that construction of both units of the plant will result in lower overall costs for the Company's customers than would cancellation of Unit 2.

If either one or both of the units at the Seabrook Plant were cancelled, the Company estimates that at the present time its share of the total costs for either one or both of the units would be substantially more than its investment; the precise amount would depend upon a number of factors, including the amount of termination charges and salvage and the result of negotiations in connection with contract terminations. The Company would apply to regulatory authorities for approval to amortize its share of total costs over an appropriate future period and to recover such costs through the Company's retail and wholesale rates.

In October, 1981, the lead owner of the Pilgrim Unit 2 jointly-owned nuclear generating plant cancelled construction of this facility. The Company has a 3.47% interest in the plant and at December 31, 1982, had expended approximately $15,900,000 as its share of the costs. The Company intends to seek recovery of its costs incurred to date and its share of any future additional costs of cancellation under its contractual obligation from customers over a period of years through state and federal regulatory authorities. The Company cannot predict whether and to what extent regulatory authorities would permit such recovery. Any amounts not so recoverable would be charged against earnings in the period in which such determination is made.

The following quarterly information is unaudited, and, in the opinion of management, is a fair summary of results of operations for such periods.

In the fourth quarter of 1981, the Company recorded nonrecurring adjustments which 1) increased the AFUDC rate from 10% to 11% for 1981 and 2) recognized higher 1981 revenues allowed by a final rate order granted January 11, 1982. These adjustments increased net income by approximately $10,800,000 ($0.46 share). Other variations between quarters reflect the seasonal nature of the Company's business.

	Three Months Ended							
	December 31,		September 30,		June 30,		March 31,	
	1982	1981	1982	1981	1982	1981	1982	1981
	(Thousands except Per Share Amounts)							
Operating Revenues	$102,510	$116,252	$101,800	$97,154	$95,736	$103,536	$123,244	$123,942
Operating Income	9,902	11,067	10,158	11,462	6,804	11,453	16,605	13,069
Net Income	24,281	26,765	23,020	17,201	17,985	16,319	26,337	16,902
Preferred Dividend Requirements	7,103	4,784	5,488	4,784	4,780	4,795	4,782	4,806
Earnings Available for Common Stock	17,178	21,981	17,532	12,417	13,205	11,524	21,555	12,096
Average Shares of Common Stock Outstanding	26,482	23,158	26,394	23,083	25,682	21,837	23,228	19,402
Earnings Per Share of Common Stock	$0.65	$0.95	$0.66	$0.54	$0.51	$0.53	$0.93	$0.62

The following supplementary information is supplied in accordance with the requirements of the Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices." These data are not intended as substitutes for earnings reported on a historical basis; they do, however, offer some perspective of the approximate effects of inflation rather than a precise measurement of the effects.

Constant dollar amounts represent historical cost stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers (CPI-U). The current cost of plant was determined by indexing each major class of plant using the Handy-Whitman Index of Public Utility Construction Costs. Current cost does not necessarily represent the replacement cost of existing productive capacity since utility plant is not expected to be replaced precisely in kind. The current year's provisions for depreciation on the constant dollar and current cost amounts of utility plant were determined by applying the Company's depreciation rates to the indexed plant amounts. Current cost amounts reflect changes in specific prices of plant from the date the plant was acquired to the present. They differ from constant dollar amounts to the extent that specific prices have increased more rapidly than the general rate of inflation ($62,022,000). At December 31, 1982, current cost of property, plant and equipment, net of accumulated depreciation, was $2,300,013,000 while historical net cost was $1,432,366,000.

Fuel inventories, the cost of fuel used in generation, and the energy component of purchased power costs have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel and purchased power costs to actual cost incurred during the period. For this reason fuel inventories are effectively monetary assets.

	Conventional Historical Cost	Constant Dollar Average 1982 Dollars	Current Cost Average 1982 Dollars
	(Thousands of Dollars)		
Operating revenues	$423,290	$423,290	$423,290
Operation and maintenance expense	312,362	312,362	312,362
Depreciation expense	19,558	46,321	50,704
Federal and state taxes on income	29,425	29,425	29,425
Other taxes	18,476	18,476	18,476
Interest expense—net	50,136	50,136	50,136
Other income and deductions—net	(98,290)	(98,290)	(98,290)
	331,667	358,430	362,813
Income from continuing operations (excluding reduction to net recoverable cost)	$ 91,623	$ 64,860*	$ 60,477*
Reduction to net recoverable cost		$ (20,794)	$ (16,411)
Gain from decline in purchasing power of net amounts owed		28,000	28,000
Net		$ 7,206	$ 11,589
Increase in specific prices (current cost) of property, plant, and equipment held during the year			$139,874
Effect of increase in general price level			77,852
Excess of increase in specific prices over increase in general price level			$ 62,022

*Including the reduction to net recoverable cost, the income from continuing operations on a constant dollar and a current cost basis would have been $44,066.

Under current rate-making policies prescribed by the regulatory commissions to which the Company is subject, only the historical cost of utility property is included in the rate base upon which the Company is allowed to earn a return. Therefore, the cost of plant stated in terms of constant dollars or current cost that exceeds the historical cost of plant is not presently recoverable in rates, and is reflected as a reduction to net recoverable costs.

During periods of inflation, the holding of monetary assets such as cash and accounts receivable results in a loss of general purchasing power because such items will purchase less at a future date. The holding of monetary liabilities such as long-term debt results in a gain of general purchasing power because the amount of money required to ultimately settle the liabilities represents dollars of diminished purchasing power. The reduction of utility plant to net recoverable cost should be offset by the gain from the decline in purchasing power of net amounts owed. This gain results from the Company's substantial use of debt financing and it should be noted that this is strictly an economic concept and that such gains will never be realized.

The statement of earnings adjusted for changing prices reveals a significant decrease in reported net income when depreciation expense is adjusted for either general inflation or changes in specific prices. As referred to earlier, the regulatory process limits the amount of depreciation expense recoverable through revenues to the historical cost of the Company's investment in utility plant. This level of depreciation produces cash flows which are inadequate to replace property in future years or to preserve the purchasing power of common equity capital invested. As a result, the Company must increasingly rely on the capital markets to provide necessary financial resources. This further exposes the Company to the effects of inflation in the form of increased financing costs. Consequently, the Company incurs a significant purchasing power loss which can be overcome by adequate rate relief through the regulatory process. While the rate-making process gives no recognition to the current cost of replacing property, plant, and equipment, based on past practices the Company believes it will be allowed to earn on the increased cost of its net investment when replacement facilities are placed in service.

Five-Year Comparison of Selected Supplementary Financial Data
Adjusted for Effects of Changing Prices

Stated in Average 1982 Dollars

	Year Ended December 31,				
	1982	1981	1980	1979	1978
	(Thousands except Per Share Amounts)				
Operating revenues	$423,290	$467,910	$411,451	$389,384	$385,781
Income from continuing operations (excluding reduction to net recoverable cost)	64,860	57,374	47,985	35,826	
Income per average common share (after dividend requirements on preferred stock and excluding reduction to net recoverable cost)	1.68	1.69	1.91	1.95	
Net assets at year-end at net recoverable cost	577,177	537,049	490,873	459,931	
Income from continuing operations (excluding reduction to net recoverable cost)	60,477	52,899	41,527	27,720	
Income per average common share (after dividend requirements on preferred stock and excluding reduction to net recoverable cost)	1.51	1.49	1.52	1.32	
Increase in general price level over (under) increase in specific prices	(62,022)	19,263	93,953	83,655	
Net assets at year-end at net recoverable cost	577,177	537,049	490,873	459,931	
Gain from decline in purchasing power of net amounts owed*	28,000	60,552	83,904	81,441	
Cash dividends declared per common share	$ 2.12	$ 2.25	$ 2.48	$ 2.82	$ 2.87
Market price per common share at year-end	$ 17.30	$ 15.28	$ 16.08	$ 19.81	$ 27.78
Average consumer price index	289.1	272.4	246.8	217.4	195.4

*Information not required for 1978.

Ten-Year Comparative Summary

Selected Financial Data

	1982	1981	1980	1979	1978	1972
	(Thousands except Per Share Amounts)					
Operating Revenues	$ 423,290	$ 440,884	$ 351,247	$ 292,814	$ 260,751	$ 95,496
Fuel and Purchased Power Expense	224,830	255,247	187,248	147,502	115,418	29,287
Operating Income	43,469	47,051	47,307	44,428	48,338	18,781
Total AFUDC	97,672	78,619	71,729	36,954	15,590	2,075
Net Income	91,623	77,187	59,847	40,719	36,507	13,472
Shares of Common Stock Outstanding (Average)	25,458	21,883	16,539	12,643	9,275	4,402
Earnings Per Share of Common Stock (Average)	$2.73	$2.65	$2.77	$2.56	$3.25	$2.62
Dividends Per Share of Common Stock	$2.12	$2.12	$2.12	$2.12	$1.94	$1.64
Net Utility Plant in Service	404,758	389,376	386,698	377,017	373,338	255,365
Unfinished Construction	1,027,608	772,526	724,150	518,880	346,382	45,862
Total Assets	1,615,523	1,328,349	1,254,228	1,010,787	812,101	364,274
Long-Term Debt	637,808	449,071	398,856	344,829	287,252	167,610
Preferred Stock						
With Mandatory Redemption Requirements	177,840	120,000	120,000	60,000	30,000	—
Without Mandatory Redemption Requirements	49,229	49,643	51,316	52,514	53,562	44,043
Common Stock Equity	535,625	471,821	387,432	312,760	228,307	96,584
Total Capitalization	1,465,102	1,090,535	957,604	770,103	599,121	308,237
Notes Payable—Banks	—	125,600	108,350	114,100	85,325	17,350

	1982	1981	1980	1979	1978	1972
Customer Data (Average)						
Total Customers	291,612	293,267	287,221	279,581	274,959	234,653
KWH Per Residential Customer	6,946	6,949	7,178	7,317	7,283	6,766
Cents Per KWH-Residential	8.60	8.65	6.69	5.78	5.57	2.71
Prime Sales (Thousands of MWH)						
Residential	1,781	1,794	1,815	1,804	1,766	1,393
Industrial	1,762	1,826	1,834	1,846	1,743	1,791
Commercial and Other	2,060	2,000	1,992	1,953	1,875	1,024
Total Prime Sales	5,603	5,620	5,641	5,603	5,384	4,208
Generating Capability—MW						
Coal	458	456	456	456	456	456
Oil	760	752	774	774	766	349
Hydro	60	60	52	48	48	48
Nuclear (Yankees)	96	98	98	98	97	80
Peak Load—Net MW	1,176	1,203	1,145	1,173	1,117	875
Annual Prime Load Factor	58.2%	56.9%	60.9%	58.6%	59.5%	58.8%

Following are the reported high and low sales prices of the Company's common stock on the New York Stock Exchange for the quarters of 1982 and 1981 and the dividends per share paid during those quarters:

	1982			1981		
	High	Low	Dividends	High	Low	Dividends
First Quarter	15 7/8	12 3/4	$0.53	16 3/4	14 1/2	$0.53
Second Quarter	16 1/2	14 3/4	$0.53	16 1/2	14 3/8	$0.53
Third Quarter	16 3/8	14	$0.53	16 1/4	14 1/8	$0.53
Fourth Quarter	18 1/4	16 1/8	$0.53	16 1/8	14 1/4	$0.53

Directors and Officers of the Company

Directors

George A. Dorr, Jr.
President
Dorr Woolen Company
Newport, NH

Philip S. Dunlap
Vice President
Morrill & Everett, Inc.
Concord, NH

Priscilla K. Frechette
Director
Kingsbury Machine Tool Corp.
Keene, NH

Harlan L. Goodwin
Chairman of the Board
The First National Bank of Portsmouth
Portsmouth, NH

Robert J. Harrison
President and Chief Executive Officer
Manchester, NH

David N. Merrill
Executive Vice President
Manchester, NH

Ann R. Moody
Vice President
Edgcomb Steel of New England, Inc.
Nashua, NH

John J. Reilly, Jr.
President and Treasurer
John J. Reilly, Inc.
Manchester, NH

William M. Scranton
Management Consultant
Keene, NH

Edward M. Shapiro
President
New Hampshire College
Manchester, NH

William C. Tallman
Chairman
Manchester, NH

Hugh C. Tuttle
Treasurer
Tuttle Market Gardens, Inc.
Dover, NH

Richard E. West
Retired
Formerly President and General Manager
J.F. McElwain Co.
Nashua, NH

David S. Williams
Chairman and President
International Packings Corp.
Bristol, NH

Executive Officers

William C. Tallman, 62 (36)*
Chairman

Robert J. Harrison, 51 (25)
President and Chief Executive Officer

David N. Merrill, 58 (33)
Executive Vice President

Charles E. Bayless, 40 (2)
Financial Vice President

D. Pierre G. Cameron, Jr., 48 (2)
Vice President and General Counsel

Dallas K. Hamerlinck, 40 (1)
Vice President for Public Affairs

John C. Duffett, 55 (28)
Senior Vice President

Henry J. Ellis, 62 (36)
Senior Vice President

Roy G. Barbour, 55 (19)
Vice President

Raymond E. Closson, 62 (35)
Vice President

William T. Frain, Jr., 41 (18)
Vice President

Warren A. Harvey, 56 (35)
Vice President

James L. Nevins, 48 (14)
Vice President

Robert A. Parks, 36 (14)
Vice President

George S. Thomas, 40 (2)
Vice President-Nuclear Production

John J. Lampron, 38 (11)
Assistant Vice President

George Branscombe, 35 (3)
Treasurer

Robert G. Ouellette, 51 (30)
Comptroller

Russell A. Winslow, 48 (21)
Secretary

Christina D. Campbell, 60 (32)
Assistant Secretary

Bruce W. Wiggett, 36 (8)
Assistant Comptroller

Executive Changes

Robert J. Harrison
Chief Executive Officer
Effective 3/1/83

Dallas K. Hamerlinck
Vice President for Public Affairs
Effective 8/16/82

John C. Duffett
Senior Vice President
Effective 12/1/82

Henry J. Ellis
Senior Vice President
Effective 12/1/82

Roy G. Barbour
Vice President
Effective 12/1/82

William T. Frain, Jr.
Vice President
Effective 12/1/82

Robert A. Parks
Vice President
Effective 12/1/82

George S. Thomas
Vice President-Nuclear Production
Effective 5/13/82

John J. Lampron
Assistant Vice President
Effective 12/1/82

George Branscombe
Treasurer
Effective 12/1/82

Robert G. Ouellette
Comptroller
Effective 12/1/82

*Figures denote age and (years of service) as of 12/31/82