UNITIL CORP
Form 10-K
January 31, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-8858

UNITIL CORPORATION

(Exact name of registrant as specified in its charter)

New Hampshire	**02-0381573**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6 Liberty Lane West, Hampton, New Hampshire	**03842-1720**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**

Common Stock, No Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer , accelerated filer , smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Based on the closing price of the registrant s common stock on June 30, 2018, the aggregate market value of common stock held by non-affiliates of the registrant was $749,186,923

The number of shares of the registrant s common stock outstanding was 14,878,075 as of January 28, 2019.

Documents Incorporated by Reference:

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 24, 2019 are incorporated by reference into Part III of this Report.

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SIGNATURES

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CAUTIONARY STATEMENT

This report and the documents incorporated by reference into this report contain statements that may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included or incorporated by reference into this report, including, without limitation, statements regarding the financial position, business strategy and other plans and objectives for the future operations of the Company (as such term is defined in Part I, Item I (Business)), are forward-looking statements.

These statements include declarations regarding the Company s beliefs and current expectations. In some cases, forward-looking statements can be identified by terminology such as may, will, should, expects, plans, anticipa believes, estimates, predicts, potential or continue or the negative of such terms or other comparable terminolog These forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the risks and uncertainties include those described in Part I, Item 1A (Risk Factors) and the following:

- the Company s regulatory environment (including regulations relating to climate change, greenhouse gas emissions and other environmental matters), which could affect the rates the Company is able to charge, the Company s authorized rate of return and the Company s ability to recover costs in its rates;

- fluctuations in the supply of, demand for, and the prices of, gas and electric energy commodities and transmission and transportation capacity and the Company s ability to recover energy supply costs in its rates;

- customers preferred energy sources;

- severe storms and the Company s ability to recover storm costs in its rates;

- declines in the valuation of capital markets, which could require the Company to make substantial cash contributions to cover its pension obligations, and the Company s ability to recover pension obligation costs in its rates;

- general economic conditions, which could adversely affect (i) the Company s customers and, consequently, the demand for the Company s distribution services, (ii) the availability of credit and liquidity resources and (iii) certain of the Company s counterparty s obligations (including those of its insurers and lenders);

- the Company s ability to obtain debt or equity financing on acceptable terms;

increases in interest rates, which could increase the Company s interest expense;

restrictive covenants contained in the terms of the Company s and its subsidiaries indebtedness, which restrict certain aspects of the Company s business operations;

variations in weather, which could decrease demand for the Company s distribution services;

long-term global climate change, which could adversely affect customer demand or cause extreme weather events that could disrupt the Company s electric and natural gas distribution services;

numerous hazards and operating risks relating to the Company s electric and natural gas distribution activities, which could result in accidents and other operating risks and costs;

catastrophic events;

the Company s ability to retain its existing customers and attract new customers; and

increased competition.

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Many of these risks are beyond the Company s control. Any forward-looking statements speak only as of the date of this report, and the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events, except as required by law. New factors emerge from time to time, and it is not possible for the Company to predict all of these factors, nor can the Company assess the impact of any such factor on its business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements.

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PART I

Item 1. Business
UNITIL CORPORATION

In this Annual Report on Form 10-K, the Company , Unitil , we , and our refer to Unitil Corporation and its subsidiar unless the context requires otherwise. Unitil is a public utility holding company and was incorporated under the laws of the State of New Hampshire in 1984. The following companies are wholly-owned subsidiaries of Unitil:

Company Name	State and Year of Organization	Principal Business
Unitil Energy Systems, Inc. (Unitil Energy)	NH - 1901	Electric Distribution Utility
Fitchburg Gas and Electric Light Company (Fitchburg)	MA - 1852	Electric & Natural Gas Distribution Utility
Northern Utilities, Inc. (Northern Utilities)	NH - 1979	Natural Gas Distribution Utility
Granite State Gas Transmission, Inc. (Granite State)	NH - 1955	Natural Gas Transmission Pipeline
Unitil Power Corp. (Unitil Power)	NH - 1984	Wholesale Electric Power Utility
Unitil Service Corp. (Unitil Service)	NH - 1984	Utility Service Company
Unitil Realty Corp. (Unitil Realty)	NH - 1986	Real Estate Management
Unitil Resources, Inc. (Unitil Resources)	NH - 1993	Non-regulated Energy Services
Usource, Inc. and Usource, L.L.C. (collectively Usource)	DE - 2000	Energy Brokering Services

Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005.

Unitil s principal business is the local distribution of electricity and natural gas to 188,330 customers throughout its service territories in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three wholly-owned distribution utilities: i) Unitil Energy, which provides electric service in the southeastern seacoast and state capital regions of New Hampshire, including the capital city of Concord, ii) Fitchburg, which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts, and iii) Northern Utilities, which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine, including the city of Portland, which is the largest city in northern New England. In addition, Unitil is the parent company of Granite State, an interstate natural gas transmission pipeline company that provides interstate natural gas pipeline access and transportation services to Northern Utilities in its New Hampshire and Maine service territory. Together, Unitil s three distribution utilities serve 105,571 electric customers and 82,759 natural gas customers.

	Customers Served as of December 31, 2018		
	Residential	Commercial & Industrial (C&I)	Total
Electric:			

Unitil Energy	64,934	11,127	76,061
Fitchburg	25,603	3,907	29,510
Total Electric	90,537	15,034	105,571
Natural Gas:			
Northern Utilities	50,335	16,451	66,786
Fitchburg	14,269	1,704	15,973
Total Natural Gas	64,604	18,155	82,759
Total Customers Served	155,141	33,189	188,330

Unitil had an investment in Net Utility Plant of $1,036.8 million at December 31, 2018. Unitil s total operating revenue was $444.1 million in 2018. Unitil s operating revenue is substantially derived from regulated natural gas and electric distribution utility operations. A fifth utility subsidiary, Unitil Power,

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formerly functioned as the full requirements wholesale power supply provider for Unitil Energy, but currently has limited business and operating activities. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of Unitil Energy in 2003 and divested of substantially all of its long-term power supply contracts through the sale of the entitlements to the electricity associated with those contracts.

Unitil also has three other wholly-owned non-utility subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and energy supply management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company s corporate office in Hampton, New Hampshire. Unitil Resources is the Company s wholly-owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are indirect subsidiaries that are wholly-owned by Unitil Resources. Usource provides energy brokering and advisory services to a national client base of large commercial and industrial customers. For segment information relating to each segment s revenue, earnings and assets, see Note 3 (Segment Information) to the Consolidated Financial Statements included in Part II, Item 8 (Financial Statements and Supplementary Data) of this report. All of the Company s revenues are attributable to customers in the United States of America and all its long-lived assets are located in the United States of America.

OPERATIONS

Natural Gas Operations

Unitil s natural gas operations include gas distribution utility operations and interstate gas transmission pipeline operations, discussed below. Revenue from Unitil s gas operations was $216.1 million for 2018, which represents about 49% of Unitil s total operating revenue.

Natural Gas Distribution Utility Operations

Unitil s natural gas distribution operations are conducted through two of the Company s operating utilities, Northern Utilities and Fitchburg. The primary business of Unitil s natural gas utility operations is the local distribution of natural gas to customers in its service territories in New Hampshire, Massachusetts and Maine. Northern Utilities C&I customers and Fitchburg s residential and C&I customers are entitled to purchase their natural gas supply from third-party competitive suppliers, while Northern Utilities or Fitchburg remains their gas distribution company. Both Northern Utilities and Fitchburg supply gas to those customers who do not obtain their supply from third-party competitive suppliers, with the approved costs associated with this gas supply being recovered on a pass-through basis through regulated reconciling rate mechanisms that are periodically adjusted.

Natural gas is distributed by Northern Utilities to 66,786 customers in 44 New Hampshire and southern Maine communities, from Plaistow, New Hampshire in the south to the city of Portland, Maine and then extending to Lewiston-Auburn, Maine in the north. Northern Utilities has a diversified customer base both in Maine and New Hampshire. Commercial businesses include healthcare, education, government and retail. Northern Utilities industrial base includes manufacturers in the auto, housing, rubber, printing, textile, pharmaceutical, electronics, wire and food production industries as well as a military installation. Northern Utilities 2018 gas operating revenue was $174.4 million, of which approximately 38% was derived from residential firm sales and 62% from C&I firm sales.

Natural gas is distributed by Fitchburg to 15,973 customers in the communities of Fitchburg, Lunenburg, Townsend, Ashby, Gardner and Westminster, all located in Massachusetts. Fitchburg s industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries. Fitchburg s 2018 gas operating revenue was $35.1 million, of which approximately 58% was derived from residential firm sales and 42% from C&I firm sales.

Gas Transmission Pipeline Operations

Granite State is an interstate natural gas transmission pipeline company, operating 86 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north. Granite State had operating revenue of $6.6 million for 2018. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and to third-party suppliers.

Electric Distribution Utility Operations

Unitil s electric distribution operations are conducted through two of the Company s utilities, Unitil Energy and Fitchburg. Revenue from Unitil s electric utility operations was $223.3 million for 2018, which represents about 50% of Unitil s total operating revenue.

The primary business of Unitil s electric utility operations is the local distribution of electricity to customers in its service territory in New Hampshire and Massachusetts. All of Unitil Energy s and Fitchburg s electric customers are entitled to choose to purchase their supply of electricity from third-party competitive suppliers, while Unitil Energy or Fitchburg remains their electric distribution company. Both Unitil Energy and Fitchburg supply electricity to those customers who do not obtain their supply from third-party competitive suppliers, with the approved costs associated with electricity supply being recovered on a pass-through basis through regulated reconciling rate mechanisms that are periodically adjusted.

Unitil Energy distributes electricity to 76,061 customers in New Hampshire in the capital city of Concord as well as parts of 12 surrounding towns and all or part of 18 towns in the southeastern and seacoast regions of New Hampshire, including the towns of Hampton, Exeter, Atkinson and Plaistow. Unitil Energy s service territory consists of approximately 408 square miles. In addition, Unitil Energy s service territory encompasses retail trading and recreation centers for the central and southeastern parts of the state and includes the Hampton Beach recreational area. These areas serve diversified commercial and industrial businesses, including manufacturing firms engaged in the production of electronic components, wire and plastics, healthcare and education. Unitil Energy s 2018 electric operating revenue was $158.6 million, of which approximately 56% was derived from residential sales and 44% from C&I sales.

Fitchburg is engaged in the distribution of both electricity and natural gas in the greater Fitchburg area of north central Massachusetts. Fitchburg s service territory encompasses approximately 170 square miles. Electricity is distributed by Fitchburg to 29,510 customers in the communities of Fitchburg, Ashby, Townsend and Lunenburg. Fitchburg s industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies, printing, publishing and associated industries and educational institutions. Fitchburg s 2018 electric operating revenue was $64.7 million, of which approximately 59% was derived from residential sales and 41% from C&I sales.

Seasonality

The Company s results of operations are expected to reflect the seasonal nature of the natural gas business. Annual gas revenues are substantially realized during the colder weather seasons of the year as a result of higher sales of natural gas used for heating related purposes. Accordingly, the results of operations are historically most favorable in the first and fourth quarters. Fluctuations in seasonal weather conditions may have a significant effect on the result of operations. Sales of electricity are generally less sensitive to weather than natural gas sales, but may also be affected by the weather conditions and the temperature in both the winter and summer seasons.

Unitil Energy, Fitchburg and Northern Utilities are not dependent on a single customer or a few customers for their electric and natural gas sales.

Non-Regulated and Other Non-Utility Operations

Unitil s non-regulated operations are conducted through Usource, a subsidiary of Unitil Resources. Usource provides energy brokering and advisory services to a national client base of large commercial and industrial customers. Revenue from Unitil s non-regulated operations was $4.7 million in 2018.

The results of Unitil s other non-utility subsidiaries, Unitil Service and Unitil Realty, and the holding company, are included in the Company s consolidated results of operations. The results of these non-utility

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operations are principally derived from income earned on short-term investments and real property owned for Unitil s and its subsidiaries use and are reported, after intercompany eliminations, in Other segment income. For segment information, see Note 3 (Segment Information) to the Consolidated Financial Statements included in Part II, Item 8 (Financial Statements and Supplementary Data) of this report.

RATES AND REGULATION

Tax Cuts and Jobs Act of 2017

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law. Among other things, the TCJA substantially reduced the corporate income tax rate to 21 percent, effective January 1, 2018. Each state public utility commission, with jurisdiction over the areas that are served by Unitil s electric and gas subsidiary companies, has issued procedural orders directing how the tax law changes are to be reflected in rates, including requiring that the companies provide certain filings and calculations. Unitil has complied with these orders and has made the required changes to its rates as directed by the commissions. The FERC has opened a rulemaking proceeding on this matter which has been addressed in a rate settlement filing by Granite State (described below). More recently, on November 15, 2018, the FERC issued a Notice of Proposed Rulemaking and a Policy Statement to address the TCJA s effects on the Accumulated Deferred Income Taxes (ADIT) on transmission rates. Under the proposed rules all public utilities with transmission formula rates, including Fitchburg, would be required to: (1) include mechanisms to deduct any excess ADIT from or add any deficient ADIT to their rate bases; (2) include mechanisms in those rates that would raise or lower their income tax allowances by any amortized excess or deficient ADIT; and (3) incorporate a new permanent worksheet into their rates that will annually track information related to excess or deficient ADIT. The Company believes that these matters are substantially resolved and will not have a material impact on its financial position, operating results, or cash flows.

In Maine, Northern Utilities Maine division recently completed a base rate case (described below). The Maine Public Utilities Commission s (MPUC) final order in that docket incorporated the lower tax rates in the calculation of rates for the Company.

Similarly, in New Hampshire, Northern Utilities New Hampshire division recently completed a base rate case proceeding (described below). The New Hampshire Public Utilities Commission s (NHPUC) final order in that docket approved a comprehensive settlement agreement among the Company, the Staff of the Public Utilities Commission and the Office of Consumer Advocate which included the effect of the tax changes in the calculation of the revenue requirement. With respect to Unitil Energy, on April 30, 2018 the NHPUC approved the Company s annual step increase pursuant to the provisions of its last base rate case, which included adjustments to account for the TCJA s income tax changes.

In Massachusetts, the Massachusetts Department of Public Utilities (MDPU) issued an order opening an investigation into the effect on rates of the decrease in the federal corporate income tax rate on the MDPU s regulated utilities, and required each utility subject to its jurisdiction to submit proposals to address the effects of the TCJA and to reduce its rates as of January 1, 2018. The MDPU consolidated an earlier petition filed by the Attorney General requesting such an investigation into its order. On June 29, 2018, the MDPU issued an order accepting Fitchburg s proposal to decrease the annual revenue requirement of both its gas and electric divisions by $0.8 million each. On December 21, 2018 the MDPU issued an order addressing the refund of excess ADIT in phase two of its investigation. Fitchburg was ordered to make a filing by January 4, 2019, for rates effective February 1, 2019, to refund $10.1 million for the electric division amortized over 15 years and $10.4 million for the gas division amortized over 14 years. The filing establishes a Tax Act Credit Factor for Fitchburg s gas and electric divisions effective February 1, 2019 in accordance with the order. To the extent any of the regulatory liability above includes excess ADIT amounts specifically associated with reconciling mechanisms, Fitchburg shall return those amounts through the respective reconciling mechanism and adjust the regulatory liability amount accordingly. The MDPU approved this filing on January 16, 2019.

On May 2, 2018, Granite State filed an uncontested rate settlement with FERC which accounted for the effects of the TCJA in its rates. The settlement was approved by FERC on June 27, 2018, and complies with and satisfies the FERC Notice of Proposed Rulemaking concerning the justness and reasonableness of rates in light of the corporate income tax reduction under the TCJA.

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Base Rate Activity

Unitil Energy Base Rates On April 20, 2017 the NHPUC approved a permanent increase of $4.1 million in electric base rates, and a three year rate plan with an additional rate step adjustment, effective May 1, 2017, of $0.9 million, followed by two rate step adjustments in May of 2018 and 2019 to recover the revenue requirements associated with annual capital expenditures. On April 30, 2018, the NHPUC approved Unitil Energy s step adjustment filing. The filing incorporated the revenue requirement of $3.3 million for 2017 plant additions, a reduction of $2.2 million for the effect of the federal tax decrease pursuant to the TCJA, along with the termination of the one-year $1.4 million reconciliation adjustment which had recouped the difference between temporary rates and final rates. The net effect of the three adjustments resulted in a revenue decrease of $0.3 million.

Fitchburg Base Rates Electric Fitchburg s last base rate order from the MDPU, issued in April 2016, included the approval of an annual capital cost recovery mechanism to recover the revenue requirement associated with certain capital additions. While a number of the capital cost recovery filings may remain pending from year-to-year in any given year, the Company considers these to be routine regulatory proceedings and there are no material issues outstanding. On June 28, 2018, Fitchburg filed its compliance report of capital investments for calendar year 2017. On November 1, 2018, Fitchburg filed its cumulative revenue requirement associated with the Company s 2015, 2016 and 2017 capital expenditures and associated Capital Cost Adjustment Factors to become effective on January 1, 2019. On December 27, 2018, the Capital Cost Adjustment Factors were approved subject to further investigation and reconciliation. This matter remains pending.

Fitchburg Electric Grid Modernization On May 10, 2018, the MDPU issued an order approving a three year grid modernization investment plan for Fitchburg for the period 2018 through 2020 with a spending cap of $4.4 million. The order provides for a cost recovery mechanism for incremental capital investments and operation and maintenance (O&M) expenses. The electric distribution companies in Massachusetts jointly filed compliance filings in August 2018 including 1) revised proposed performance metrics designed to address pre-authorized grid-facing investments, 2) a proposed evaluation plan for the three-year investment term, and 3) a model tariff for cost recovery including proposed protocol for identifying and tracking incremental O&M expenses. Approval of these filings is pending. The next three year investment plan is due July 1, 2020 for the period 2021 through 2023, and is required to include a five year strategic plan for 2021 2025.

Fitchburg Solar Generation On November 9, 2016, the MDPU approved Fitchburg s petition to develop a 1.3 MW solar generation facility located on Company property in Fitchburg, Massachusetts. Construction of the solar generating facility was completed and the facility began generating power on November 22, 2017. On April 2, 2018, Fitchburg submitted its first filing pursuant to its Solar Cost Adjustment tariff, by which the Company recovers its annual revenue requirement related to its investment in the solar generation facility. The filing sought a net amount of approximately $0.3 million for recovery effective June 1, 2018. The recovery of this amount in rates was approved by the MDPU on May 31, 2018, subject to further investigation and reconciliation. A final order is pending.

Fitchburg Base Rates Gas Pursuant to the Company s revenue decoupling adjustment clause tariff, as approved in its last base rate case, the Company is allowed to modify, on a semi-annual basis, its base distribution rates to an established revenue per customer target in order to mitigate economic, weather and energy efficiency impacts to the Company s revenues. The MDPU has consistently found that the Company s filings are in accord with its approved tariffs, applicable law and precedent, and that they result in just and reasonable rates.

Fitchburg Gas System Enhancement Program Pursuant to statute and MDPU order, Fitchburg has an approved Gas System Enhancement Plan (GSEP) tariff through which it may recover certain gas infrastructure replacement and safety related investment costs, subject to an annual cap. Under the plan, the Company is required to make two annual filings with the MDPU: a forward-looking filing for the subsequent construction year, to be filed on or before October 31; and a filing, submitted on or before May 1, of final project documentation for projects completed during the prior year, demonstrating substantial compliance with its plan in effect for that year and showing that project costs were reasonably and prudently incurred. While a number of the filings under the GSEP tariff may remain pending from year-to-year in any given year, the Company considers these to be routine regulatory proceedings and there are no material issues outstanding. Under this tariff, a revenue increase of $0.9 million went into effect on May 1, 2018, subject to the annual cap and reconciliation. On October 31, 2018, the MDPU approved the Company s request for a waiver of the annual cap in order to recover its reconciliation adjustment of $0.4 million effective November 1, 2018 associated with its actual 2017 revenue requirement.

Northern Utilities Base Rates Maine On February 28, 2018, the MPUC issued its Final Order (Order) in Northern Utilities pending base rate case. The Order provided for an annual revenue increase of $2.1 million before a reduction of $2.2 million to incorporate the effect of the lower federal income tax rate under the TCJA. The MPUC Order approved a return on equity of 9.5 percent and a capital structure reflecting 50 percent equity and 50 percent long-term debt. The Order also provides for a reduction in annual depreciation expense, reducing the Company s annual operating costs by approximately $0.5 million, and addressed a number of other issues, including a change to therm billing, increases in other delivery charges, and cost recovery under the Company s Targeted Area Build-out (TAB) program and Targeted Infrastructure Replacement Adjustment (TIRA) mechanism. The new rates and other changes became effective on March 1, 2018.

Northern Utilities Targeted Infrastructure Replacement Adjustment Maine The settlement in Northern Utilities Maine division s 2013 rate case allowed the Company to implement a TIRA rate mechanism to adjust base distribution rates annually to recover the revenue requirements associated with targeted investments in gas distribution system infrastructure replacement and upgrade projects, including the Company s Cast Iron Replacement Program (CIRP). The TIRA had an initial term of four years and covered targeted capital expenditures in 2013 through 2016. In its Order in the current base rate case (see above), the MPUC approved an extension of the TIRA mechanism, with adjustment, for an additional eight-year period, which will allow for annual rate adjustments through the end of the CIRP program. On May 7, 2018, the MPUC approved the Company s request to increase its annual base rates by 2.4%, or $1.1 million, to recover the revenue requirements for 2017 eligible facilities.

Northern Utilities Targeted Area Build-out Program Maine In December 2015, the MPUC approved a TAB program and associated rate surcharge mechanism. This program is designed to allow the economic extension of natural gas mains to new, targeted service areas in Maine. It allows customers in the targeted area the ability to pay a rate surcharge, instead of a large upfront payment or capital contribution to connect to the natural gas delivery system. The initial pilot of the TAB program was approved for the City of Saco, and is being built out over a period of three years, with the potential to add 1,000 new customers and approximately $1 million in annual distribution revenue in the Saco area. A second TAB program was approved for the Town of Sanford, and has the potential to add 2,000 new customers and approximately $2 million in annual distribution revenue in the Sanford area. In its base rate case Order (described above), the MPUC approved the inclusion of Saco TAB investments in rate base along with a cost recovery incentive mechanism for future TAB investments.

Northern Utilities Base Rates New Hampshire On May 2, 2018, the NHPUC approved a settlement agreement providing for an annual revenue increase of $2.6 million, a reduction of annual revenue of $1.7 million to reflect the effect of the TCJA, and a step increase of $2.3 million to recover post-test year capital investments, all effective May 1, 2018 (with the revenue increase of $2.6 million reconciling to the date of temporary rates of August 1, 2017 and the revenue decrease for TCJA reconciling to January 1, 2018), for a net increase of approximately $3.2 million. Under the agreement, the Company may file for a second step increase for effect May 1, 2019 to recover eligible capital investments in 2018, up to a revenue requirement cap of $2.2 million. If the Company chooses the option to implement the second step increase, the next distribution base rate case will be based on an historic test year of no earlier than twelve months ending December 31, 2020.

Northern Utilities Franchise Extensions New Hampshire On October 3, 2018, the NHPUC granted Northern Utilities authority to expand its natural gas service territory in the Towns of Kingston, New Hampshire and Atkinson, New Hampshire (where the Company already had a limited franchise) to serve new industrial, commercial and residential customers. Northern Utilities has also petitioned the NHPUC to extend its franchise into the Town of Epping, New Hampshire, where new commercial and residential developments present the Company with opportunities for growth. The franchise petition for service to the Town of Epping remains pending.

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Granite State Base Rates On May 2, 2018, Granite State filed an uncontested rate settlement with FERC which provided for no change in rates, and accounted for the effects of a capital step adjustment offset by the effect of the TCJA. The settlement was approved by FERC on June 27, 2018, and complies with the FERC Notice of Proposed Rulemaking concerning the justness and reasonableness of rates in light of the corporate income tax reductions under the TCJA. The settlement also provides that Granite State may not file a general (Section 4) rate case prior to April 30, 2019.

Regulation

Unitil is subject to comprehensive regulation by federal and state regulatory authorities. Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 with regard to certain bookkeeping, accounting and reporting requirements. Unitil s utility operations related to wholesale and interstate energy business activities are also regulated by the FERC. Unitil s distribution utilities are subject to regulation by the applicable state public utility commissions, with regard to their rates, issuance of securities and other accounting and operational matters: Unitil Energy is subject to regulation by the NHPUC; Fitchburg is subject to regulation by the MDPU; and Northern Utilities is regulated by the NHPUC and MPUC. Granite State, Unitil s interstate natural gas transmission pipeline, is subject to regulation by the FERC with regard to its rates and operations. Because Unitil s primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company s operations and financial position.

Unitil s distribution utilities deliver electricity and/or natural gas to all customers in their service territory, at rates established under cost of service regulation. Under this regulatory structure, Unitil s distribution utilities recover the cost of providing distribution service to their customers based on a historical test year, and earn a return on their capital investment in utility assets. In addition, the Company s distribution utilities and its natural gas transmission pipeline company may also recover certain base rate costs, including capital project spending and enhanced reliability and vegetation management programs, through annual step adjustments and cost tracker rate mechanisms.

Fitchburg is subject to revenue decoupling. Revenue decoupling is the term given to the elimination of the dependency of a utility s distribution revenue on the volume of electricity or natural gas sales. The difference between distribution revenue amounts billed to customers and the targeted revenue decoupling amounts is recognized as an increase or a decrease in Accrued Revenue which forms the basis for resetting rates for future cash recoveries from, or credits to, customers. These revenue decoupling targets may be adjusted as a result of rate cases and other authorized adjustments that the Company files with the MDPU. The Company estimates that revenue decoupling applies to approximately 27% and 11% of Unitil s total annual electric and natural gas sales volumes, respectively.

Also see *Regulatory Matters* in Part II, Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) and Note 8 (Commitments and Contingencies) to the accompanying Consolidated Financial Statements for additional information on rates and regulation.

NATURAL GAS SUPPLY

Unitil purchases and manages gas supply for customers served by Northern Utilities in Maine and New Hampshire as well as customers served by Fitchburg in Massachusetts.

Northern Utilities C&I customers are entitled to purchase their natural gas supply from third-party gas suppliers. Many of Northern Utilities largest and some medium C&I customers purchase their gas supply from third-party suppliers, while most small C&I customers, as well as all residential customers, purchase their gas supply from Northern Utilities under regulated rates and tariffs. As of December 2018, 79% of Unitil s largest New Hampshire gas customers, representing 37% of Unitil s New Hampshire gas therm sales and 68% of Unitil s largest Maine customers, representing 23% of Unitil s Maine gas therm sales, are purchasing gas supply from a third-party supplier.

Fitchburg s residential and C&I business customers are entitled to purchase their natural gas supply from third-party gas suppliers. Many large and some medium C&I customers purchase their gas supply

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from third-party suppliers while most of Fitchburg s residential and small C&I customers continue to purchase their supplies at regulated rates from Fitchburg. As of December 2018, 85% of Unitil s largest Massachusetts gas customers, representing 26% of Unitil s Massachusetts gas therm sales, are purchasing gas supply from third-party suppliers. The approved costs associated with natural gas supplied to customers who do not contract with third-party suppliers are recovered on a pass-through basis through periodically adjusted rates and are included in Cost of Gas Sales in the Consolidated Statements of Earnings.

Regulated Natural Gas Supply

Northern Utilities purchases a majority of its natural gas from U.S. domestic and Canadian suppliers largely under contracts of one year or less, and on occasion from producers and marketers on the spot market. Northern Utilities arranges for gas transportation and delivery to its system through its own long-term contracts with various interstate pipeline and storage facilities, through peaking supply contracts delivered to its system, or in the case of liquefied natural gas (LNG), via over the road trucking of supplies to storage facilities within Northern Utilities service territory.

Northern Utilities has available under firm contract 115,000 million British Thermal Units (MMbtu) per day of year-round and seasonal transportation capacity to its distribution facilities, and 4.3 billion cubic feet (BCF) of underground storage. As a supplement to pipeline natural gas, Northern Utilities owns an LNG storage and vaporization facility. This plant is used principally during peak load periods to augment the supply of pipeline natural gas.

Fitchburg purchases natural gas under contracts from producers and marketers largely under contracts of one year or less, and occasionally on the spot market. Fitchburg arranges for gas transportation and delivery to its system through its own long-term contracts with Tennessee Gas Pipeline, through peaking supply contracts delivered to its system, or in the case of LNG or liquefied propane gas (LPG), via trucking of supplies to storage facilities within Fitchburg s service territory.

Fitchburg has available under firm contract 14,057 MMbtu per day of year-round transportation and 0.33 BCF of underground storage capacity to its distribution facilities. As a supplement to pipeline natural gas, Fitchburg owns a propane air gas plant and an LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

ELECTRIC POWER SUPPLY

Fitchburg, Unitil Energy, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the Independent System Operator New England (ISO-NE) markets for the purpose of facilitating wholesale electric power supply transactions, which are necessary to serve Unitil s electric customers with their supply of electricity Unitil s customers in both New Hampshire and Massachusetts are entitled to purchase their electric supply from competitive third-party suppliers. As of December 2018, 77% of Unitil s largest New Hampshire customers, representing 24% of Unitil s New Hampshire electric kilowatt-hour (kWh) sales and 81% of Unitil s largest Massachusetts customers, representing 32% of Unitil s Massachusetts electric kWh sales, are purchasing their electric power supply in the competitive market. Additionally, cities and towns in Massachusetts may, with approval from the MDPU, implement municipal aggregations whereby the municipality purchases electric power on behalf of all citizens and businesses that do not opt out of the aggregation. The Towns of Lunenburg and Ashby have active municipal aggregations. Customers in Lunenburg comprise about 17% of Fitchburg s customer base and customers in Ashby comprise another 4%. Buoyed by the municipal aggregations, 31% of Unitil s residential customers in Massachusetts purchase their electricity from a third-party supplier as of December 2018.

In New Hampshire, the percentage of residential customers purchasing electricity from a third-party supplier stands at 10%, down slightly relative to prior years when 13% of Unitil s residential customers in New Hampshire purchased their supply from third-party suppliers. Most residential and small commercial customers continue to purchase their electric supply through Unitil s electric distribution utilities under regulated energy rates and tariffs.

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Regulated Electric Power Supply

In order to provide regulated electric supply service to their customers, Unitil s electric distribution utilities enter into load-following wholesale electric power supply contracts to purchase electric supply from various wholesale suppliers.

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

Fitchburg has power supply contracts with various wholesale suppliers for the provision of Basic Service electric supply. MDPU policy dictates the pricing structure and duration of each of these contracts. Basic Service power supply contracts for residential and for small and medium general service customers are acquired every six months, are 12 months in duration and provide 50% of the supply requirements. On June 13, 2012, the MDPU approved Fitchburg s request to discontinue the procurement process for Fitchburg s large customers and become the load-serving entity for these customers. Currently, all Basic Service power supply requirements for large accounts are assigned to Fitchburg s ISO-NE settlement account where Fitchburg procures electric supply through ISO-NE s real-time market.

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

Regional Electric Transmission and Power Markets

Fitchburg, Unitil Energy and Unitil Power, as well as virtually all New England electric utilities, are participants in the ISO-NE markets. ISO-NE is the Regional Transmission Organization (RTO) in New England. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economical manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England are performed on a regional basis. The ISO-NE tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated, reliable power system operation and a supportive business environment for the development of competitive electric markets.

Electric Power Supply Divestiture

In connection with the implementation of retail choice, Unitil Power, which formerly functioned as the wholesale power supply provider for Unitil Energy, and Fitchburg divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The companies have a continuing obligation to submit regulatory filings that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

Long-Term Renewable Contracts

Fitchburg has entered into long-term renewable contracts for the purchase of clean energy and/or renewable energy certificates (RECs) pursuant to Massachusetts legislation, specifically, An Act Relative to Green Communities (Green

Communities Act , 2008), An Act Relative to Competitively Priced Electricity in the Commonwealth (2012) and An Act to Promote Energy Diversity (Energy Diversity Act , 2016). The generating facilities associated with four of these contracts have been constructed and are now operating. Since 2017, the Company has participated in two major statewide procurements which resulted in contracts for imported hydroelectric power and associated transmission and for offshore wind generation. The contracts were filed with MDPU in 2018 and approvals remain pending.

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Additional long-term clean energy contracts are expected in compliance with the Energy Diversity Act and An Act to Promote a Clean Energy Future (2018). Fitchburg recovers the costs associated with long-term renewable contracts on a fully reconciling basis through a MDPU-approved cost recovery mechanism.

ENVIRONMENTAL MATTERS

The Company s past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. The Company is in material compliance with applicable environmental and safety laws and regulations and, as of December 31, 2018, has not identified any material losses reasonably likely to be incurred in excess of recorded amounts. However, the Company cannot assure that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs. Based on the Company s current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, the Company does not believe that these environmental costs will have a material adverse effect on the Company s consolidated financial position or results of operations.

Northern Utilities Manufactured Gas Plant Sites Northern Utilities has an extensive program to identify, investigate and remediate former manufactured gas plant (MGP) sites, which were operated from the mid-1800s through the mid-1900s. In New Hampshire, MGP sites were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. In Maine, Northern Utilities has documented the presence of MGP sites in Lewiston and Portland, and a former MGP disposal site in Scarborough.

Northern Utilities has worked with the Maine Department of Environmental Protection and New Hampshire Department of Environmental Services to address environmental concerns with these sites. Northern Utilities or others have substantially completed remediation of all sites, though on site monitoring continues and it is possible that future activities may be required.

The NHPUC and MPUC have approved regulatory mechanisms for the recovery of MGP environmental costs. For Northern Utilities New Hampshire division, the NHPUC has approved the recovery of MGP environmental costs over succeeding seven-year periods. For Northern Utilities Maine division, the MPUC has authorized the recovery of environmental remediation costs over succeeding five-year periods.

The Environmental Obligations table below shows the amounts accrued for Northern Utilities related to estimated future cleanup costs associated with Northern Utilities environmental remediation obligations for former MGP sites. Corresponding Regulatory Assets were recorded to reflect that the future recovery of these environmental remediation costs is expected based on regulatory precedent and established practices.

Fitchburg s Manufactured Gas Plant Site Fitchburg has worked with the Massachusetts Department of Environmental Protection to address environmental concerns with the former MGP site at Sawyer Passway, and has substantially completed remediation activities, though on site monitoring will continue and it is possible that future activities may be required.

Fitchburg recovers the environmental response costs incurred at this former MGP site in gas rates pursuant to the terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, Fitchburg is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods.

Also, see *Environmental Matters* in Part II, Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) and Note 8 (Commitments and Contingencies) to the accompanying Consolidated Financial

Statements for additional information on Environmental Matters.

EMPLOYEES

As of December 31, 2018, the Company and its subsidiaries had 520 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

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As of December 31, 2018, a total of 165 employees of certain of the Company s subsidiaries were represented by labor unions. The following table details by subsidiary the employees covered by a collective bargaining agreement (CBA) as of December 31, 2018:

	Employees Covered	CBA Expiration
Fitchburg	47	05/31/2019
Northern Utilities NH Division	34	06/05/2020
Northern Utilities ME Division	39	03/31/2021
Granite State	4	03/31/2021
Unitil Energy	36	05/31/2023
Unitil Service	5	05/31/2023

The CBAs provide discrete salary adjustments, established work practices and uniform benefit packages. The Company expects to negotiate new agreements prior to their expiration dates.

AVAILABLE INFORMATION

The Internet address for the Company s website is *www.unitil.com*. On the Investors section of the Company s website, the Company makes available, free of charge, its Securities and Exchange Commission (SEC) reports, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports, as well as amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practical after the Company electronically files such material with, or furnishes such material to, the SEC.

The Company s current Code of Ethics was approved by Unitil s Board of Directors on January 15, 2004. This Code of Ethics, along with any amendments or waivers, is also available on Unitil s website.

Unitil s common stock is listed on the New York Stock Exchange under the ticker symbol UTL .

INVESTOR INFORMATION

Annual Meeting

The Company s annual meeting of shareholders is scheduled to be held at the offices of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Wednesday, April 24, 2019, at 11:30 a.m.

Transfer Agent

The Company s transfer agent, Computershare Investor Services, is responsible for shareholder records, issuance of common stock, administration of the Dividend Reinvestment and Stock Purchase Plan, and the distribution of Unitil s dividends and IRS Form 1099-DIV. Shareholders may contact Computershare at:

Computershare Investor Services

P.O. Box 30170

College Station, TX 77842-3170

Telephone: 800-736-3001

www.computershare.com/investor

Investor Relations

For information about the Company, you may call the Company directly, toll-free, at: 800-999-6501 and ask for the Investor Relations Representative; visit the Investors page at *www.unitil.com*; or contact the transfer agent, Computershare, at the number listed above.

Special Services & Shareholder Programs Available to Holders of Record

If a shareholder s shares of our common stock are registered directly in the shareholder s name with the Company s transfer agent, the shareholder is considered a holder of record of the shares. The following services and programs are available to shareholders of record:

Internet Account Access is available at *www.computershare.com/investor*.

Dividend Reinvestment and Stock Purchase Plan:
To enroll, please contact the Company s Investor Relations Representative or Computershare.

Dividend Direct Deposit Service:
To enroll, please contact the Company s Investor Relations Representative or Computershare.

Direct Registration:
For information, please contact Computershare at 800-935-9330 or the Company s Investor Relations Representative at 800-999-6501.

Item 1A. Risk Factors
Risks Relating to Our Business

The Company is subject to comprehensive regulation, which could adversely impact the rates it is able to charge, its authorized rate of return and its ability to recover costs. In addition, certain regulatory authorities have the statutory authority to impose financial penalties and other sanctions on the Company, which could adversely affect the Company s financial condition and results of operations.

The Company is subject to comprehensive regulation by federal regulatory authorities (including the FERC) and state regulatory authorities (including the NHPUC, MDPU and MPUC). These authorities regulate many aspects of the Company s operations, including the rates that the Company can charge customers, the Company s authorized rates of return, the Company s ability to recover costs from its customers, construction and maintenance of the Company s facilities, the Company s safety protocols and procedures, including environmental compliance, the Company s ability to issue securities, the Company s accounting matters, and transactions between the Company and its affiliates. The Company is unable to predict the impact on its financial condition and results of operations from the regulatory activities of any of these regulatory authorities. Changes in regulations, the imposition of additional regulations or regulatory decisions particular to the Company could adversely affect the Company s financial condition and results of operations.

The Company s ability to obtain rate adjustments to maintain its current authorized rates of return depends upon action by regulatory authorities under applicable statutes, rules and regulations. These regulatory authorities are authorized to leave the Company s rates unchanged, to grant increases in such rates or to order decreases in such rates. The Company may be unable to obtain favorable rate adjustments or to maintain its current authorized rates of return, which could adversely affect its financial condition and results of operations.

Regulatory authorities also have authority with respect to the Company s ability to recover its electricity and natural gas supply costs, as incurred by Unitil Power, Unitil Energy, Fitchburg, and Northern Utilities. If the Company is unable to recover a significant amount of these costs, or if the Company s recovery of these costs is significantly delayed, then the Company s financial condition and results or operations could be adversely affected.

In addition, certain regulatory authorities have the statutory authority to impose financial penalties and other sanctions on the Company if the Company is found to have violated statutes, rules or regulations governing its utility operations.

Any such penalties or sanctions could adversely affect the Company s financial condition and results of operations.

The Company s electric and natural gas sales and revenues are highly correlated with the economy, and national, regional and local economic conditions may adversely affect the Company s customers and correspondingly the Company s financial condition and results of operations.

The Company s business is influenced by the economic activity within its service territory. The level of economic activity in the Company s electric and natural gas distribution service territories directly affects the Company s business. As a result, adverse changes in the economy may adversely affect the Company s financial condition and results or operations. Economic downturns or periods of high electric and gas supply costs typically can lead to the development of legislative and regulatory policy designed to promote reductions in energy consumption and increased energy efficiency and self-generation by customers. This focus on conservation, energy efficiency and self-generation may result in a decline in electricity and gas sales in our service territories. If any such declines were to occur without corresponding adjustments in rates, then our revenues would be reduced and our future growth prospects would be limited. In addition, a period of prolonged economic weakness could impact customers ability to pay bills in a timely manner and increase customer bankruptcies, which may lead to increased bad debt expenses or other adverse effects on our financial position, results of operations and/or cash flows.

The Company may not be able to obtain financing, or may not be able to obtain financing on acceptable terms, which could adversely affect the Company s financial condition and results of operations.

The Company requires capital to fund utility plant additions, working capital and other utility expenditures. While the Company derives the capital necessary to meet these requirements primarily from internally-generated funds, the Company supplements internally-generated funds by incurring short-term and long-term debt, as needed. Additionally, from time to time, the Company has accessed the public capital markets through public offerings of equity securities. A downgrade of our credit rating or events beyond our control, such as a disruption in global capital and credit markets, could increase our cost of borrowing and cost of capital or restrict our ability to access the capital markets and negatively affect our ability to maintain and to expand our businesses.

The Company s short-term debt revolving credit facility typically has variable interest rates. Therefore, an increase or decrease in interest rates will increase or decrease the Company s interest expense associated with its revolving credit facility. An increase in the Company s interest expense could adversely affect the Company s financial condition and results of operations. As of December 31, 2018, the Company had approximately $82.8 million in short-term debt outstanding under its revolving credit facility. Additionally, if the lending counterparties under the Company s current credit facility are unwilling or unable to meet their funding obligations, then the Company may be unable to, or limited in its ability to, incur short-term debt under its credit facility. This could hinder or prevent the Company from meeting its current and future capital needs, which could correspondingly adversely affect the Company s financial condition and results or operations.

Also, from time to time, the Company repays portions of its short-term debt with the proceeds it receives from long-term debt financings or equity financings. General economic conditions, conditions in the capital and credit markets and the Company s operating and financial performance could negatively affect the Company s ability to obtain such financings or the terms of such financings, which could correspondingly adversely affect the Company s financial condition and results of operations. The Company s long-term debt typically has fixed interest rates. Therefore, changes in interest rates will not affect the Company s interest expense associated with its presently outstanding fixed rate long-term debt. However, an increase or decrease in interest rates may increase or decrease the Company s interest expense associated with any new fixed rate long-term debt issued by the Company, which could adversely affect the Company s financial condition and results of operations.

In addition, the Company may need to use a significant portion of its cash flow to repay its short-term debt and long-term debt, which would limit the amount of cash it has available for working capital, capital expenditures and other general corporate purposes and could adversely affect its financial condition and results of operations.

Changes in taxation and the ability to quantify such changes could adversely affect the Company s financial results.

The Company is subject to taxation by the various taxing authorities at the federal, state and local levels where it does business. See Tax Cuts and Jobs Act of 2017 in Rates and Regulation above. Legislation or regulation which could affect the Company s tax burden could be enacted by any of these governmental authorities. The Company cannot predict the timing or extent of such tax-related developments which could have a negative impact on the financial results. Additionally, the Company uses its best judgment in attempting to quantify and reserve for these tax obligations. However, a challenge by a taxing authority, the Company s ability to utilize tax benefits such as carryforwards or tax credits, or a deviation from other tax-related assumptions may cause actual financial results to deviate from previous estimates. (See Note 9 to the Consolidated Financial Statements).

Declines in the valuation of capital markets could require the Company to make substantial cash contributions to cover its pension and other post-retirement benefit obligations. If the Company is unable to recover a significant amount of pension and other post-retirement benefit obligation costs in its rates, or if the Company s recovery of these costs in its rates is significantly delayed, then the Company s financial condition and results of operations could be adversely affected.

The amount of cash contributions the Company is required to make in respect of its pension and other post-retirement benefit obligations is dependent upon the valuation of the capital markets. Adverse changes in the valuation of the capital markets could result in the Company being required to make substantial cash contributions in respect to these obligations. These cash contributions could have an adverse effect on the Company s financial condition and results of operations if the Company is unable to recover such costs in rates or if such recovery is significantly delayed. Please see the section entitled *Critical Accounting Policies Retirement Benefit Obligations* in Part II, Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) and Note 10 (Retirement Benefit Plans) to the accompanying Consolidated Financial Statements for a more detailed discussion of the Company pension obligations.

The terms of the Company s and its subsidiaries indebtedness restrict the Company s and its subsidiaries business operations (including their ability to incur material amounts of additional indebtedness), which could adversely affect the Company s financial condition and results of operations.

The terms of the Company s and its subsidiaries indebtedness impose various restrictions on the Company s business operations, including the ability of the Company and its subsidiaries to incur additional indebtedness. These restrictions could adversely affect the Company s financial condition and results of operations. See the sections entitled *Liquidity, Commitments and Capital Requirements* in Part II, Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) and Note 5 (Debt and Financing Arrangements) to the accompanying Consolidated Financial Statements for a more detailed discussion of these restrictions.

A significant amount of the Company s sales are temperature sensitive. Because of this, mild winter and summer temperatures could decrease the Company s sales, which could adversely affect the Company s financial condition and results of operations. Also, the Company s sales may vary from year to year depending on weather conditions, and the Company s results of operations generally reflect seasonality.

The Company estimates that approximately 70% of its annual natural gas sales are temperature sensitive. Therefore, mild winter temperatures could decrease the amount of natural gas sold by the Company, which could adversely affect the Company s financial condition and results of operations. The Company s electric sales also are temperature sensitive, but less so than its natural gas sales. The highest usage of electricity typically occurs in the summer months (due to air conditioning demand) and the winter months (due to heating-related and lighting requirements). Therefore, mild summer temperatures and mild winter temperatures could decrease the amount of electricity sold by the Company, which could adversely affect the Company s financial condition and results of operations. Also, because of this temperature sensitivity, sales by the Company s distribution utilities vary from year to year, depending on weather conditions.

The Company s results of operations are expected to reflect the seasonal nature of the natural gas business. Annual gas revenues are substantially realized during the colder weather seasons of the year as a result of higher sales of natural gas used for heating related purposes. Accordingly, the results of operations are historically most favorable in the first and fourth quarters. Fluctuations in seasonal weather conditions may have a significant effect on the result of operations. Sales of electricity are generally less sensitive to weather than natural gas sales, but may also be affected by the weather conditions and the temperature in both the winter and summer seasons.

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Unitil is a public utility holding company and has no operating income of its own. The Company s ability to pay dividends on its common stock is dependent on dividends and other payments received from its subsidiaries and on factors directly affecting Unitil, the parent corporation. The Company cannot assure that its current annual dividend will be paid in the future.

The ability of the Company s subsidiaries to pay dividends or make distributions to Unitil depends on, among other things:

- the actual and projected earnings and cash flow, capital requirements and general financial condition of the Company s subsidiaries;
- the prior rights of holders of existing and future preferred stock, mortgage bonds, long-term notes and other debt issued by the Company s subsidiaries;
- the restrictions on the payment of dividends contained in the existing loan agreements of the Company s subsidiaries and that may be contained in future debt agreements of the Company s subsidiaries, if any; and
- limitations that may be imposed by New Hampshire, Massachusetts and Maine state regulatory authorities.

In addition, before the Company can pay dividends on its common stock, it has to satisfy its debt obligations and comply with any statutory or contractual limitations.

As of January 30, 2019, the Company s current effective annualized dividend is $1.48 per share of common stock, payable quarterly. The Company s Board of Directors reviews Unitil s dividend policy periodically in light of a number of business and financial factors, including those referred to above, and the Company cannot assure the amount of dividends, if any, that may be paid in the future.

A substantial disruption or lack of growth in interstate natural gas pipeline transmission and storage capacity and electric transmission capacity may impair the Company s ability to meet customers existing and future requirements.

In order to meet existing and future customer demands for natural gas and electricity, the Company must acquire sufficient supplies of natural gas and electricity. In addition, the Company must contract for reliable and adequate upstream transmission and transportation capacity for its distribution systems while considering the dynamics of the natural gas interstate pipelines and storage, the electric transmission markets and its own on-system resources. The Company s financial condition or results of operations may be adversely affected if the future availability of natural gas and electric supply were insufficient to meet future customer demands for natural gas and electricity.

The Company s electric and natural gas distribution activities (including storing natural gas and supplemental gas supplies) involve numerous hazards and operating risks that may result in accidents and other operating risks and costs. Any such accident or costs could adversely affect the Company s financial position or results of operations.

Inherent in the Company s electric and natural gas distribution activities are a variety of hazards and operating risks, including leaks, explosions, electrocutions, mechanical problems and aging infrastructure. These hazards and risks could result in loss of human life, significant damage to property, environmental pollution, damage to natural resources and impairment of the Company s operations, which could adversely affect the Company s financial position or results of operations.

The Company maintains insurance against some, but not all, of these risks and losses in accordance with customary industry practice. The location of pipelines, storage facilities and electric distribution equipment near populated areas (including residential areas, commercial business centers and industrial sites) could increase the level of damages associated with these hazards and operating risks. The occurrence of any of these events could adversely affect the Company s financial position or results of operations.

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The Company s business is subject to environmental regulation in all jurisdictions in which it operates and its costs of compliance are significant. New, or changes to existing, environmental regulation, including those related to climate change or greenhouse gas emissions, and the incurrence of environmental liabilities could adversely affect the Company s financial condition and results of operations.

The Company s utility operations are generally subject to extensive federal, state and local environmental laws and regulations relating to air quality, water quality, waste management, natural resources, and the health and safety of the Company s employees. The Company s utility operations also may be subject to new and emerging federal, state and local legislative and regulatory initiatives related to climate change or greenhouse gas emissions including the U.S. Environmental Protection Agency s mandatory greenhouse gas reporting rule. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties and other sanctions; imposition of remedial requirements; and issuance of injunctions to ensure future compliance. Liability under certain environmental laws and regulations is strict, joint and several in nature. Although the Company believes it is in material compliance with all applicable environmental and safety laws and regulations, we cannot assure you that the Company will not incur significant costs and liabilities in the future. Moreover, it is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations, including those related to climate change or greenhouse gas emissions, could result in increased environmental compliance costs.

Catastrophic events could adversely affect the Company s financial condition and results of operations.

The electric and natural gas utility industries are from time to time affected by catastrophic events, such as unusually severe weather and significant and widespread failures of plant and equipment. Other catastrophic occurrences, such as terrorist attacks on utility facilities, may occur in the future. Such events could inhibit the Company s ability to deliver electric or natural gas to its customers for an extended period, which could affect customer satisfaction and adversely affect the Company s financial condition and results of operations. If customers, legislators, or regulators develop a negative opinion of the Company, this could result in increased regulatory oversight and could affect the returns on equity that the Company is allowed to earn. Also, if the Company is unable to recover a significant amount of costs associated with catastrophic events in its rates, or if the Company s recovery of such costs in its rates is significantly delayed, then the Company s financial condition and results or operations may be adversely affected.

The Company s operational and information systems on which it relies to conduct its business and serve customers could fail to function properly due to technological problems, a cyber-attack, acts of terrorism, severe weather, a solar event, an electromagnetic event, a natural disaster, the age and condition of information technology assets, human error, or other reasons, that could disrupt the Company s operations and cause the Company to incur unanticipated losses and expense.

The operation of the Company s extensive electricity and natural gas systems rely on evolving information technology systems and network infrastructures that are likely to become more complex as new technologies and systems are developed. The Company s business is highly dependent on its ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex. The failure of these information systems and networks could significantly disrupt operations; result in outages and/or damages to the Company s assets or operations or those of third parties on which it relies; and subject the Company to claims by customers or third parties, any of which could have a material effect on the Company s financial condition, results of operations, and cash flows.

The Company s information systems, including its financial information, operational systems, metering, and billing systems, require constant maintenance, modification, and updating, which can be costly and increases the risk of errors and malfunction. Any disruptions or deficiencies in existing information systems, or disruptions, delays or deficiencies in the modification or implementation of new information systems, could result in increased costs, the inability to track or collect revenues, the diversion of management s and employees attention and resources, and could negatively impact the effectiveness of the Company s control environment, and/or the Company s ability to timely file required regulatory reports. Despite implementation of security and mitigation measures, all of the Company s technology systems are vulnerable to impairment or failure due to cyber-attacks, computer viruses, human errors, acts of war or terrorism and other reasons. If the Company s information technology systems were to fail or be materially impaired, the Company might be unable to fulfill critical business functions and serve its customers, which could have a material effect on the Company s financial condition, results of operations, and cash flows.

In the ordinary course of its business, the Company collects and retains sensitive electronic data including personal identification information about customers and employees, customer energy usage, and other confidential information. The theft, damage, or improper disclosure of sensitive electronic data through security breaches or other means could subject the Company to penalties for violation of applicable privacy laws or claims from third parties and could harm the Company s reputation and adversely affect the Company s financial condition and results of operations.

In addition, the Company s electric and natural gas distribution and transmission delivery systems are part of an interconnected regional grid and pipeline system. If these neighboring interconnected systems were to be disrupted due to cyber-attacks, computer viruses, human errors, acts of war or terrorism or other reasons, the Company s operations and its ability to serve its customers would be adversely affected, which could have a material effect on the Company s financial condition, results of operations, and cash flows.

We outsource certain business functions to third-party suppliers and service providers, and substandard performance by those third parties could harm our business, reputation and results of operations.

We outsource certain services to third parties in areas including information technology, telecommunications, networks, transaction processing, human resources, payroll and payroll processing and other areas. Outsourcing of services to third parties could expose us to substandard quality of service delivery or substandard deliverables, which may result in missed deadlines or other timeliness issues, non-compliance (including with applicable legal requirements and industry standards) or reputational harm, which could negatively impact our results of operations. We also continue to pursue enhancements to modernize our systems and processes. If any difficulties in the operation of these systems were to occur, they could adversely affect our results of operations, or adversely affect our ability to work with regulators, unions, customers or employees.

The inability to attract and retain a qualified workforce including, but not limited to, executive officers, key employees and employees with specialized skills, could have an adverse effect on the Company s operations.

The success of our business depends on the leadership of our executive officers and other key employees to implement our business strategies. The inability to maintain a qualified workforce including, but not limited to, executive officers, key employees and employees with specialized skills, may negatively affect our ability to service our existing or new customers, or successfully manage our business or achieve our business objectives. There may not be sufficiently skilled employees available internally to replace employees when they retire or otherwise leave active employment. Shortages of certain highly skilled employees may also mean that qualified employees are not available externally to replace these employees when they are needed. In addition, shortages in highly skilled employees coupled with competitive pressures may require the Company to incur additional employee recruiting and compensation expenses.

The Company may be adversely impacted by work stoppages, labor disputes, and/or pandemic illness to which it may not able to promptly respond.

Approximately one-third of the Company s employees are represented by labor unions and are covered by collective bargaining agreements. Disputes with the unions over terms and conditions of the agreements could result in instability in the Company s labor relationships and work stoppages that could impact the timely delivery of natural gas and electricity, which could strain relationships with customers and state regulators and cause a loss of revenues. The Company s collective bargaining agreements may also increase the cost of employing its union workforce, affect its ability to continue offering market-based salaries and employee benefits, limit its flexibility in dealing with its workforce, and limit its ability to change work rules and practices and implement other efficiency-related improvements to successfully compete in today s challenging marketplace, which may negatively affect the Company s financial condition and results of operations.

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Additionally, pandemic illness could result in part, or all, of the Company s workforce being unable to operate or maintain the Company s infrastructure or perform other tasks necessary to conduct the Company s business. A slow or inadequate response to this type of event may adversely affect the Company s financial condition and results of operations.

The Company s business could be adversely affected if it is unable to retain its existing customers or attract new customers, or if customers demand for its current products and services significantly decreases.

The success of the Company s business depends, in part, on its ability to maintain and increase its customer base and the demand that those customers have for the Company s products and services. The Company s failure to maintain or increase its customer base and/or customer demand for its products and services could adversely affect its financial condition and results of operations.

The natural gas and electric supply requirements of the Company s customers are fulfilled by the Company or, in some instances and as allowed by state regulatory authorities, by third-party suppliers who contract directly with customers. In either scenario, significant increases in natural gas and electricity commodity prices may negatively impact the Company s ability to attract new customers and grow its customer base.

Developments in distributed generation, energy conservation, power generation and energy storage could affect the Company s revenues and the timing of the recovery of the Company s costs. Advancements in power generation technology are improving the cost-effectiveness of customer self-supply of electricity. Improvements in energy storage technology, including batteries and fuel cells, could also better position customers to meet their around-the-clock electricity requirements. Such developments could reduce customer purchases of electricity, but may not necessarily reduce the Company s investment and operating requirements due to the Company s obligation to serve customers, including those self-supply customers whose equipment has failed for any reason, to provide the power they need. In addition, since a portion of the Company s costs are recovered through charges based upon the volume of power delivered, reductions in electricity deliveries will affect the timing of the Company s recovery of those costs and may require changes to the Company s rate structures.

The financial performance of the Company s non-regulated energy brokering business, Usource, may be adversely affected if suppliers and/or customers default in their performance under multi-year energy brokering contracts or by competition from other energy brokers.

Usource provides energy brokering and consulting services to a national client base of large commercial and industrial customers. Revenues from this business are primarily derived from brokering fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts. Usource s customers and/or the suppliers providing energy to Usource s customers may default in their performance under multi-year energy brokering contracts, which could adversely affect the Company s financial condition and results of operations. In addition, Usource may lose market share to other energy brokers which could adversely affect the Company s financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2018, Unitil owned, through its natural gas and electric distribution utilities, five utility operation centers located in New Hampshire, Maine and Massachusetts. In addition, the Company s real estate subsidiary, Unitil Realty, owns the Company s corporate headquarters building and the land on which it is located. In May 2018, Fitchburg relocated to its new operating center in Lunenburg on a 15 acre property owned by Unitil.

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The following tables detail certain of the Company s natural gas and electric operations properties.

Natural Gas Operations

Description	Northern Utilities NH	Northern Utilities ME	Fitchburg	Granite State	Total
Underground Natural Gas Mains Miles	544	589	274		1,407
Natural Gas Transmission Pipeline Miles				86	86
Service Pipes	23,642	22,481	11,074		57,197

Electric Operations

Description	Unitil Energy	Fitchburg	Total
Primary Transmission and Distribution Pole Miles Overhead	1,278	445	1,723
Conduit Distribution Bank Miles Underground	231	67	298
Transmission and Distribution Substations	34	16	50
Transformer Capacity of Transmission and Distribution Substations (MVA)	549.5	608.2	1,157.7

The Company s natural gas operations property includes two liquid propane gas plants and two liquid natural gas plants. Northern Utilities also owns a propane air gas plant and an LNG storage and vaporization facility. FG&E owns a propane air gas plant and an LNG storage and vaporization facility, both of which are located on land owned by FG&E in north central Massachusetts.

Northern Utilities gas mains are primarily made up of polyethylene plastic (80%), coated and wrapped cathodically protected steel (16%), cast/wrought iron (3%), and unprotected bare and coated steel (1%). FG&E s gas mains are primarily made up of coated steel (45%), bare steel (2%), polyethylene plastic (36%), cast iron (16) and wrought and ductile iron (1%).

Granite State s underground natural gas transmission pipeline, regulated by the FERC, is located primarily in Maine and New Hampshire.

Unitil Energy s electric substations are located on land owned by Unitil Energy or land occupied by Unitil Energy pursuant to perpetual easements in the southeastern seacoast and state capital regions of New Hampshire**.** Unitil Energy s electric distribution lines are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by Unitil Energy without objection by the owners. In the case of certain distribution lines, Unitil Energy owns only a part interest in the poles upon which its wires are installed, the remaining interest being owned by telecommunication companies.

The physical utility properties of Unitil Energy, with certain exceptions, and its franchises are subject to its indenture of mortgage and deed of trust under which the respective series of first mortgage bonds of Unitil Energy are outstanding.

FG&E s electric substations, with minor exceptions, are located in north central Massachusetts on land owned by FG&E or occupied by FG&E pursuant to perpetual easements. FG&E s electric distribution lines and gas mains are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, express or implied through use by FG&E without objection by the owners. FG&E owns full interest in the poles upon which its wires are installed.

The Company believes that its facilities are currently adequate for their intended uses.

Item 3. Legal Proceedings

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. The Company believes, based upon information furnished by counsel and others, that the ultimate resolution of these claims will not have a material impact on its financial position, operating results or cash flows.

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In early 2009, a putative class action complaint was filed against Unitil s Massachusetts based utility, Fitchburg, in Massachusetts Worcester Superior Court, (captioned Bellermann et al v. Fitchburg Gas and Electric Light Company). The Complaint sought an unspecified amount of damages, including the cost of temporary housing and alternative fuel sources, emotional and physical pain and suffering and property damages allegedly incurred by customers in connection with the loss of electric service during the ice storm in Fitchburg s service territory in December 2008. The Massachusetts Supreme Judicial Court issued an order denying class certification status in July 2016, though the plaintiffs individual claims remained pending. The Company resolved this matter by settlement in the fall of 2018 and there was no material impact on the Company s financial position, operating results or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange under the symbol UTL. As of December 31, 2018, there were 1,350 shareholders of record of our common stock.

Common Stock Data

Dividends per Common Share	**2018**	**2017**
1st Quarter	**$ 0.365**	$ 0.360
2nd Quarter	**0.365**	0.360
3rd Quarter	**0.365**	0.360
4th Quarter	**0.365**	0.360
Total for Year	**$ 1.46**	$ 1.44

See also Dividends in Part II, Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) below.

Information regarding securities authorized for issuance under our equity compensation plans, as of December 31, 2018, is set forth in the table below.

Equity Compensation Plan Information

Plan Category	**(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**(b) Weighted-average exercise price of outstanding options, warrants and rights**	**(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))**
Equity compensation plans approved by security holders[1]			305,449
Equity compensation plans not approved by security holders			
Total			305,449

NOTES: (also see Note 6 to the accompanying Consolidated Financial Statements)

(1) Consists of the Second Amended and Restated 2003 Stock Plan (the Plan). On April 19, 2012, shareholders approved the Plan, and a total of 677,500 shares of our common stock were reserved for issuance pursuant to awards of restricted stock, restricted stock units and common stock under the Plan. A total of 380,161 shares of restricted stock have been awarded and 1,106 restricted stock units have been settled and issued as shares of common stock by Plan participants through December 31, 2018. As of December 31, 2018, a total of 8,110 shares of restricted stock were forfeited and once again became available for issuance under the Plan.

Stock Performance Graph

The following graph compares Unitil Corporation s cumulative stockholder return since December 31, 2013 with the Peer Group index, comprised of the S&P 500 Utilities Index, and the S&P 500 index. The graph assumes that the value of the investment in the Company s common stock and each index (including reinvestment of dividends) was $100 on December 31, 2013.

Comparative Five-Year Total Returns

NOTE:

(1) The graph above assumes $100 invested on December 31, 2013, in each category and the reinvestment of all dividends during the five-year period. The Peer Group is comprised of the S&P 500 Utilities Index.

Unregistered Sales of Equity Securities and Uses of Proceeds

There were no sales of unregistered equity securities by the Company for the fiscal period ended December 31, 2018.

Issuer Purchases of Equity Securities

Pursuant to the written trading plan under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act), adopted and announced by the Company on May 1, 2018, the Company will periodically repurchase shares of its Common Stock on the open market related to Employee Length of Service Awards and the stock portion of the Directors annual retainer for those Directors who elected to receive common stock. There is no pool or maximum number of shares related to these purchases; however, the trading plan will terminate when $92,700 in value of shares have been purchased or, if sooner, on May 1, 2019.

The Company may suspend or terminate this trading plan at any time, so long as the suspension or termination is made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5 under the Exchange Act, or other applicable securities laws.

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The following table shows information regarding repurchases by the Company of shares of its common stock pursuant to the trading plan for each month in the quarter ended December 31, 2018.

Period		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/18	10/31/18				$ 75,366
11/1/18	11/30/18				$ 75,366
12/1/18	12/31/18	319	$ 50.330	319	$ 59,311
Total		319	$ 50.330	319	

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Item 6. Selected Financial Data

	For the Years Ended December 31, (all data in millions except customers served, shares, % and per share data)				
	2018	**2017**	**2016**	**2015**	**2014**
Customers Served (Year-End):					
Electric:					
Residential	**90,537**	90,009	89,400	88,444	88,012
Commercial & Industrial	**15,034**	14,969	14,872	14,825	14,740
Total Electric	**105,571**	104,978	104,272	103,269	102,752
Natural Gas:					
Residential	**64,604**	63,441	62,284	61,270	60,236
Commercial & Industrial	**18,155**	17,868	17,654	17,479	17,624
Total Natural Gas	**82,759**	81,309	79,938	78,749	77,860
Total Customers Served	**188,330**	186,287	184,210	182,018	180,612
Electric and Gas Sales:					
Electric Distribution Sales (kWh)	**1,675.8**	1,624.1	1,628.8	1,667.7	1,679.0
Firm Natural Gas Distribution Sales (Therms)	**231.1**	213.8	205.7	219.4	216.2
Consolidated Statements of Earnings:					
Operating Revenue	**$ 444.1**	$ 406.2	$ 383.4	$ 426.8	$ 425.8
Operating Income	**71.2**	75.4	70.2	68.0	63.5
Interest Expense, net	**24.0**	23.1	22.5	21.9	20.9
Other Expense (Income), net	**5.8**	5.8	5.2	4.4	3.9
Income Before Income Taxes	**41.4**	46.5	42.5	41.7	38.7
Income Taxes	**8.4**	17.5	15.4	15.4	14.0
Net Income	**33.0**	29.0	27.1	26.3	24.7
Dividends on Preferred Stock					
Earnings Applicable to Common Shareholders	**$ 33.0**	$ 29.0	$ 27.1	$ 26.3	$ 24.7
Earnings Per Average Share:	**$ 2.23**	$ 2.06	$ 1.94	$ 1.89	$ 1.79
Common Stock (Diluted Weighted Average Outstanding, 000 s)	**14,829**	14,102	13,996	13,920	13,847
Dividends Declared Per Share	**$ 1.46**	$ 1.44	$ 1.42	$ 1.40	$ 1.38
Book Value Per Share (Year-End)	**$ 23.60**	$ 22.72	$ 20.82	$ 20.20	$ 19.62
Balance Sheet Data (as of December 31,):					

Utility Plant	**$ 1,369.3**	$ 1,279.2	$ 1,173.4	$ 1,080.6	$ 988.8
Capital Lease Obligations[1]	**$ 5.8**	$ 8.8	$ 11.3	$ 14.1	$ 8.0
Total Assets	**$ 1,298.3**	$ 1,241.9	$ 1,128.2	$ 1,038.8	$ 997.0
Capitalization:					
Common Stock Equity	**$ 351.1**	$ 336.6	$ 292.9	$ 282.6	$ 273.1
Preferred Stock	**0.2**	0.2	0.2	0.2	0.2
Long-Term Debt, less current portion	**387.4**	376.3	316.8	305.5	326.0
Total Capitalization	**$ 738.7**	$ 713.1	$ 609.9	$ 588.3	$ 599.3
Current Portion of Long-Term Debt	**$ 18.4**	$ 29.8	$ 16.8	$ 17.1	$ 3.7
Short-Term Debt	**$ 82.8**	$ 38.3	$ 81.9	$ 42.0	$ 29.3
Capital Structure Ratios (as of December 31,):					
Common Stock Equity	**48%**	47%	48%	48%	46%
Long-Term Debt, less current portion	**52%**	53%	52%	52%	54%

(1) Includes amounts due within one year.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) (Note references are to the Notes to the Consolidated Financial Statements included in Item 8, below.)

OVERVIEW

Unitil is a public utility holding company headquartered in Hampton, New Hampshire. Unitil is subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005.

Unitil s principal business is the local distribution of electricity and natural gas to approximately 188,300 customers throughout its service territory in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three wholly-owned distribution utilities:

i) Unitil Energy, which provides electric service in the southeastern seacoast and state capital regions of New Hampshire;

ii) Fitchburg, which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts; and

iii) Northern Utilities, which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine, including the city of Portland and the Lewiston-Auburn area.

Unitil Energy, Fitchburg and Northern Utilities are collectively referred to as the distribution utilities. Together, the distribution utilities serve approximately 105,600 electric customers and 82,700 natural gas customers in their service territory.

In addition, Unitil is the parent company of Granite State, a natural gas transmission pipeline, regulated by the FERC, operating 86 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to three major natural gas pipelines and access to North American pipeline supplies.

The distribution utilities are local pipes and wires operating companies, and Unitil had an investment in Net Utility Plant of $1,036.8 million at December 31, 2018. Unitil s total revenue was $444.1 million in 2018, which includes revenue to recover the approved cost of purchased electricity and natural gas in rates on a fully reconciling basis. As a result of this reconciling rate structure, the Company s earnings are not affected by changes in the cost of purchased electricity and natural gas. Earnings from Unitil s utility operations are derived from the return on investment in the three distribution utilities and Granite State.

Unitil also conducts non-regulated operations principally through Usource, which is wholly-owned by Unitil Resources. Usource provides energy brokering and advisory services to a national client base of large commercial and industrial customers. Usource s total revenues were $4.7 million in 2018. The Company s other subsidiaries include Unitil Service, which provides, at cost, a variety of administrative and professional services to Unitil s affiliated companies, and Unitil Realty, which owns and manages Unitil s corporate office building and property located in Hampton, New Hampshire. Unitil s consolidated net income includes the earnings of the holding company and these subsidiaries.

Regulation

Unitil is subject to comprehensive regulation by federal and state regulatory authorities. Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 with regard to certain bookkeeping, accounting and reporting requirements. Unitil s utility operations related to wholesale and interstate energy business activities are also regulated by the FERC. Unitil s distribution utilities are subject to regulation by the applicable state public utility commissions, with regard to their rates, issuance of securities and other accounting and operational matters: Unitil Energy is subject to regulation by the NHPUC; Fitchburg is subject to regulation by the MDPU; and Northern Utilities is regulated by the NHPUC and MPUC. Granite State, Unitil s interstate natural gas transmission pipeline, is subject to regulation by the FERC with regard to its rates and operations. Because Unitil s primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company s operations and financial position.

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Unitil s distribution utilities deliver electricity and/or natural gas to all customers in their service territory, at rates established under traditional cost of service regulation. Under this regulatory structure, Unitil s distribution utilities recover the cost of providing distribution service to their customers based on a historical test year, and earn a return on their capital investment in utility assets. In addition, the Company s distribution utilities and its natural gas transmission pipeline company may also recover certain base rate costs, including capital project spending and enhanced reliability and vegetation management programs, through annual step adjustments and cost tracker rate mechanisms.

Most of Unitil s customers have the opportunity to purchase their electricity or natural gas supplies from third-party energy suppliers. Many of Unitil s distribution utilities largest C&I customers purchase their electricity or gas supply from third-party suppliers, while most small C&I customers, as well residential customers, purchase their electricity or gas supply from the distribution utilities under regulated rates and tariffs. Unitil s distribution utilities purchase electricity or natural gas from unaffiliated wholesale energy suppliers and recover the actual approved costs of these supplies on a pass-through basis, through reconciling rate mechanisms that are periodically adjusted.

Also see *Regulatory Matters* shown below and Note 8 (Commitments and Contingencies) to the accompanying Consolidated Financial Statements for additional information on rates and regulation.

Fitchburg is subject to revenue decoupling. Revenue decoupling is the term given to the elimination of the dependency of a utility s distribution revenue on the volume of electricity or natural gas sales. The difference between distribution revenue amounts billed to customers and the targeted revenue decoupling amounts is recognized as an increase or a decrease in Accrued Revenue which forms the basis for resetting rates for future cash recoveries from, or credits to, customers. These revenue decoupling targets may be adjusted as a result of rate cases that the Company files with the MDPU. The Company estimates that revenue decoupling applies to approximately 27% and 11% of Unitil s total annual electric and natural gas sales volumes, respectively.

RESULTS OF OPERATIONS

The following discussion of the Company s financial condition and results of operations should be read in conjunction with the accompanying Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

The Company s results of operations are expected to reflect the seasonal nature of the natural gas business. Annual gas revenues are substantially realized during the colder weather seasons of the year as a result of higher sales of natural gas used for heating related purposes. Accordingly, the results of operations are historically most favorable in the first and fourth quarters. Fluctuations in seasonal weather conditions may have a significant effect on the result of operations. Sales of electricity are generally less sensitive to weather than natural gas sales, but may also be affected by the weather conditions and the temperature in both the winter and summer seasons. Also, as a result of recent rate cases, the Company s natural gas sales margins are derived from a higher percentage of fixed billing components, including customer charges. Therefore, natural gas revenues and margin will be less affected by the seasonal nature of the natural gas business. In addition, as discussed above, approximately 27% and 11% of the Company s total annual electric and natural gas sales volumes, respectively, are decoupled and changes in sales to existing customers do not affect sales margin on decoupled sales volumes.

Net Income and EPS Overview

2018 Compared to 2017 The Company s Net Income was $33.0 million, or $2.23 per share, for the year ended December 31, 2018, an increase of $4.0 million, or 13.8%, in Net Income, and $0.17, or 8.25%, in Earnings Per Share, compared to 2017. The Company s earnings for 2018 were driven by increases in natural gas and electric sales margins.

Natural gas sales margin was $116.9 million in 2018, an increase of $7.2 million compared to 2017. Gas sales margin in 2018 was positively affected by higher natural gas distribution rates of $7.1 million, which was partially offset by the reduction in rates of $3.7 million due to the lower corporate income tax rate of 21% under the TCJA. Gas margin in 2018 reflects the positive effect of colder winter weather and customer growth on sales volume of $3.8 million.

Natural gas therm sales increased 8.1% in 2018 compared to 2017. The increase in gas therm sales in the Company s service areas was driven by customer growth and colder winter weather in 2018 compared to 2017. Based on weather data collected in the Company s natural gas service areas, there were 12.2% more Heating Degree Days in 2018 compared to 2017. As of December 31, 2018 the number of natural gas customers served has increased by 1,450 over the last year.

Electric sales margin was $91.9 million in 2018, a decrease of $0.3 million compared to 2017. Electric sales margin in 2018 was positively affected by higher electric distribution rates of $2.9 million, partially offset by the reduction in rates of $2.6 million in 2018 due to the lower corporate income tax rate of 21% under the TCJA. Electric sales margin in the current period was also positively affected by warmer-than-average summer temperatures and customer growth of $0.8 million. These positive impacts on electric sales margin were offset by the absence in the current period of a one-year $1.4 million temporary rate reconciliation adjustment recognized in 2017 Electric Operating Revenues by the Company s New Hampshire electric utility.

Electric kilowatt-hour (kWh) sales increased 3.2% in 2018 compared to 2017 reflecting customer growth and warmer-than-average summer temperatures in 2018. Based on weather data collected in the Company s electric service areas, there were 42.2% more Cooling Degree Days in 2018 compared to 2017. As of December 31, 2018, the number of electric customers served has increased by 593 over the last year.

O&M expenses increased $5.0 million in 2018 compared to 2017. The change in O&M expense reflects higher labor costs of $1.8 million and higher utility operating costs of $4.0 million, partially offset by lower professional fees of $0.8 million. The higher utility operating costs include a non-recurring temporary rate adjustment which increased O&M expenses by $1.2 million in the second quarter of 2018, which was offset by a corresponding increase in gas revenue, and also includes higher bad debt expense of $0.8 million and higher storm-related and other distribution and transmission systems maintenance costs of $2.0 million.

Depreciation and Amortization expense increased $3.5 million in 2018 compared to 2017, reflecting higher depreciation on higher utility plant in service and higher amortization of information technology costs, partially offset by lower amortization of deferred major storm costs which were amortized for recovery over multi-year periods.

Taxes Other Than Income Taxes increased $1.3 million in 2018 compared to 2017, primarily reflecting higher local property tax rates on higher levels of utility plant in service and higher payroll taxes.

Interest Expense, net increased $0.9 million, or 3.9%, in 2018 compared to 2017 reflecting interest on higher short-term debt rates and higher levels of long-term debt.

Other Expense (Income) was essentially unchanged in 2018 compared to 2017.

Income Taxes decreased $9.1 million in 2018 compared to 2017 reflecting $6.3 million from the lower tax rate on pre-tax earnings in 2018 and the current tax benefit of $2.8 million of book/tax temporary differences turning at the lower income tax rate from the TCJA in 2018.

In 2018, Unitil s annual common dividend was $1.46 per share, representing an unbroken record of quarterly dividend payments since trading began in Unitil s common stock. At its January 2019 meeting, the Unitil Corporation Board of Directors declared a quarterly dividend on the Company s common stock of $0.37 per share, an increase of $0.005 per share on a quarterly basis, resulting in an increase in the effective annualized dividend rate to $1.48 per share from $1.46 per share.

2017 Compared to 2016 The Company s Net Income was $29.0 million, or $2.06 per share, for the year ended December 31, 2017, an increase of $1.9 million in Net Income, and $0.12 in Earnings Per Share, compared to 2016. The Company s earnings for 2017 were driven by increases in natural gas and electric sales margins.

A more detailed discussion of the Company s 2018 and 2017 results of operations and a year-to-year comparison of changes in financial position are presented below.

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Gas Sales, Revenues and Margin

Therm Sales Unitil s total therm sales of natural gas increased 8.1% in 2018 compared to 2017. Sales to residential and C&I customers increased 12.2% and 7.0%, respectively, in 2018 compared to 2017. The increase in gas therm sales in the Company s service areas was driven by customer growth and colder winter weather in 2018 compared to 2017. Based on weather data collected in the Company s natural gas service areas, there were 12.2% more HDD in 2018 compared to 2017. The Company estimates that weather-normalized gas therm sales, excluding decoupled sales, were up 3.3% in 2018 compared to 2017. As of December 31, 2018 the number of natural gas customers served has increased by 1,450 over the last year. As previously discussed, sales margin derived from decoupled unit sales (representing approximately 11% of total annual therm sales volume) is not sensitive to changes in gas therm sales.

Unitil s total therm sales of natural gas increased 3.9% in 2017 compared to 2016. Sales to residential and C&I customers increased 6.9% and 3.2%, respectively, in 2017 compared to 2016. The increase in gas therm sales in the Company s service areas was driven by customer growth and colder winter weather in 2017 compared to 2016. Based on weather data collected in the Company s natural gas service areas, there were 5% more HDD in 2017 compared to 2016. The Company estimates that weather-normalized gas therm sales, excluding decoupled sales, were up 1.7% in 2017 compared to 2016. As of December 31, 2017 the total number of natural gas customers served increased by 1,371 compared to the prior year.

The following table details total therm sales for the last three years, by major customer class:

Therm Sales (millions)				**Change**			
				2018 vs. 2017		**2017 vs. 2016**	
	2018	**2017**	**2016**	**Therms**	**%**	**Therms**	**%**
Residential	**48.7**	43.4	40.6	5.3	12.2%	2.8	6.9%
Commercial & Industrial	**182.4**	170.4	165.1	12.0	7.0%	5.3	3.2%
Total Therm Sales	**231.1**	213.8	205.7	17.3	8.1%	8.1	3.9%

Gas Operating Revenues and Sales Margin The following table details total Gas Operating Revenue and Sales Margin for the last three years by major customer class:

Gas Operating Revenues and Sales Margin (millions)				**Change**			
				2018 vs. 2017		**2017 vs. 2016**	
	2018	**2017**	**2016**	**$**	**%**	**$**	**%**
Gas Operating Revenue:							
Residential	**$ 86.0**	$ 77.3	$ 71.0	$ 8.7	11.3%	$ 6.3	8.9%
Commercial & Industrial	**130.1**	116.7	110.2	13.4	11.5%	6.5	5.9%
Total Gas Operating Revenue	**$ 216.1**	$ 194.0	$ 181.2	$ 22.1	11.4%	$ 12.8	7.1%

Cost of Gas Sales	**$ 99.2**	$ 84.3	$ 77.6	$ 14.9	17.7%	$ 6.7	8.6%
Gas Sales Margin	**$ 116.9**	$ 109.7	$ 103.6	$ 7.2	6.6%	$ 6.1	5.9%

The Company analyzes operating results using Gas Sales Margin, a non-GAAP measure. Gas Sales Margin is calculated as Total Gas Operating Revenue less Cost of Gas Sales. The Company believes Gas Sales Margin is an important measure to analyze profitability because the approved cost of sales are tracked and reconciled to costs that are passed through directly to customers, resulting in an equal and offsetting amount reflected in Total Gas Operating Revenue. Sales margin can be reconciled to Operating Income, a GAAP measure, by including Operation and Maintenance, Depreciation and Amortization and Taxes Other Than Income Taxes for each segment in the analysis.

Natural gas sales margin was $116.9 million in 2018, an increase of $7.2 million compared to 2017. Gas sales margin in 2018 was positively affected by higher natural gas distribution rates of $7.1 million, which was partially offset by the reduction in rates of $3.7 million due to the lower corporate income tax rate of 21% under the TCJA. As a result of the final base rate award in the Company s New Hampshire gas utility, the Company recognized concurrent non-recurring adjustments to increase both Gas Operating Revenues and O&M expenses by $1.2 million in the second quarter of 2018 to reconcile permanent rates and deferred costs to the temporary rates which were effective July 1, 2017. Gas margin in 2018 reflects the positive effect of colder winter weather and customer growth on sales volume of $3.8 million.

The increase in Total Gas Operating Revenues of $22.1 million, or 11.4%, in 2018 compared to 2017 reflects higher natural gas distribution rates, customer growth and higher cost of gas sales, which are tracked and reconciled costs as a pass-through to customers.

Natural gas sales margin was $109.7 million in 2017, an increase of $6.1 million compared to 2016, driven by higher natural gas distribution rates of $3.3 million and the positive impact of colder weather and customer growth of $2.8 million.

The increase in Total Gas Operating Revenues of $12.8 million, or 7.1%, in 2017 compared to 2016 reflects higher natural gas distribution rates, customer growth and higher cost of gas sales, which are tracked and reconciled costs as a pass-through to customers.

Electric Sales, Revenues and Margin

Kilowatt-hour Sales Unitil s total electric kWh sales increased 3.2% in 2018 compared to 2017. Sales to residential customers and C&I customers increased 5.6% and 1.6%, respectively, in 2018 compared to 2017, reflecting customer growth and warmer-than-average summer temperatures in 2018. Based on weather data collected in the Company s electric service areas, there were 42.2% more Cooling Degree Days in 2018 compared to 2017. As of December 31, 2018, the number of electric customers served has increased by 593 over the last year. As previously discussed, sales margins derived from decoupled unit sales (representing approximately 27% of total annual sales volume) are not sensitive to changes in kWh sales.

Unitil s total electric kWh sales decreased 0.3% in 2017 compared to 2016. Sales to residential customers and C&I customers decreased 0.3% and 0.3%, respectively, in 2017 compared to 2016, reflecting milder summer weather in 2017, largely offset by customer growth. Based on weather data collected in the Company s electric service areas, there were 21% fewer Cooling Degree Days in 2017 compared to 2016. As of December 31, 2017, the number of electric customers served increased by 706 compared to the prior year.

The following table details total kWh sales for the last three years by major customer class:

kWh Sales (millions)				**Change**			
				2018 vs. 2017		**2017 vs. 2016**	
	2018	**2017**	**2016**	**kWh**	**%**	**kWh**	**%**
Residential	**685.5**	649.4	651.3	36.1	5.6%	(1.9)	(0.3%)
Commercial & Industrial	**990.3**	974.7	977.5	15.6	1.6%	(2.8)	(0.3%)
Total kWh Sales	**1,675.8**	1,624.1	1,628.8	51.7	3.2%	(4.7)	(0.3%)

Electric Operating Revenues and Sales Margin The following table details Total Electric Operating Revenue and Sales Margin for the last three years by major customer class:

Electric Operating Revenues and Sales Margin (millions)

				Change			
				2018 vs. 2017		2017 vs. 2016	
	2018	**2017**	**2016**	**$**	**%**	**$**	**%**
Electric Operating Revenue:							
Residential	**$ 127.2**	$ 115.5	$ 110.6	$ 11.7	10.1%	$ 4.9	4.4%
Commercial & Industrial	**96.1**	90.7	85.5	5.4	6.0%	5.2	6.1%
Total Electric Operating Revenue	**$ 223.3**	$ 206.2	$ 196.1	$ 17.1	8.3%	$ 10.1	5.2%
Cost of Electric Sales	**$ 131.4**	$ 114.0	$ 108.0	$ 17.4	15.3%	$ 6.0	5.6%
Electric Sales Margin	**$ 91.9**	$ 92.2	$ 88.1	$ (0.3)	(0.3%)	$ 4.1	4.7%

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

Electric sales margin was $91.9 million in 2018, a decrease of $0.3 million compared to 2017. Electric sales margin in 2018 was positively affected by higher electric distribution rates of $2.9 million, partially offset by the reduction in rates of $2.6 million in 2018 due to the lower corporate income tax rate of 21% under the TCJA. Electric sales margin in the current period was also positively affected by warmer-than-average summer temperatures and customer growth of $0.8 million. These positive impacts on electric sales margin were offset by the absence in the current period of a one-year $1.4 million temporary rate reconciliation adjustment recognized in 2017 Electric Operating Revenues by the Company s New Hampshire electric utility.

The increase in Total Electric Operating Revenue of $17.1 million, or 8.3%, in 2018 compared to 2017 reflects higher electric distribution rates, customer growth and higher cost of electric sales, which are tracked and reconciled costs as a pass-through to customers.

Electric sales margin was $92.2 million in 2017, an increase of $4.1 million compared to 2016. Electric sales margin in 2017 was positively affected by higher electric distribution rates of $5.4 million and customer growth of $1.0 million, partially offset by lower sales volumes due to the net impact of milder summer weather of $0.5 million and lower transmission revenues of $1.8 million. The higher electric distribution rates in 2017 include $1.4 million from a one-year $1.4 million temporary rate reconciliation adjustment, discussed above, recognized in 2017 Electric Operating Revenues by the Company s New Hampshire electric utility.

The increase in Total Electric Operating Revenue of $10.1 million, or 5.2%, in 2017 compared to 2016 reflects higher electric distribution rates and higher cost of electric sales, which are tracked and reconciled costs as a pass-through to customers.

Operating Revenue Other

Total Other Operating Revenue (See Other Operating Revenue Non-regulated in Note 1 to the accompanying Consolidated Financial Statements) is comprised of revenues from the Company s non-regulated energy brokering business, Usource. Usource s revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from those suppliers under term contracts brokered by Usource.

Usource s revenues decreased $1.3 million, or 21.7%, in 2018 compared to 2017 and $0.1 million, or 1.6%, in 2017 compared to 2016. The decrease in 2018 compared to 2017 is primarily the result of the adoption of a new accounting standard.

In the first quarter of 2018, the Company adopted Accounting Standards Update (ASU) 2014-09, and its subsequent clarifications and amendments outlined in ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2017-13, on a modified retrospective basis, which requires application to contracts with customers effective January 1, 2018. ASU 2014-09 requires that payments made by Usource to third parties (Channel Partners) for revenue sharing agreements are recognized as a reduction from revenue, where those payments were previously recognized as an operating expense. Therefore, beginning in 2018 and going forward, payments made by Usource to third parties for revenue sharing agreements are reported as Other in the Operating Revenues section of the Consolidated Statements of Earnings, along with Usource s revenues. Prior to the adoption of ASU 2014-09, payments by Usource to Channel Partners for revenue sharing agreements are included as Operation and Maintenance in the Operating Expenses section of the Consolidated Statements of Earnings. Those Channel Partner payments were $1.0 million, $1.1 million and $1.0 million in 2018, 2017 and 2016, respectively.

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If ASU 2014-09 had been in effect for 2017 and 2016, the result would have been corresponding reductions of $1.1 million and $1.0 million, respectively, in both Other in the Operating Revenues section of the Consolidated Statements of Earnings and Operation and Maintenance in the Operating Expenses section of the Company s Consolidated Statements of Earnings.

The following table details total Other Revenue for the last three years:

Other Revenue (millions)

				Change			
				2018 vs. 2017		2017 vs. 2016	
	2018	**2017**	**2016**	**$**	**%**	**$**	**%**
Usource	**$ 4.7**	$ 6.0	$ 6.1	$ (1.3)	(21.7%)	$ (0.1)	(1.6%)
Total Other Revenue	**$ 4.7**	$ 6.0	$ 6.1	$ (1.3)	(21.7%)	$ (0.1)	(1.6%)

Operating Expenses

Cost of Gas Sales Cost of Gas Sales includes the cost of natural gas purchased and manufactured to supply the Company s total gas supply requirements and spending on energy efficiency programs. Cost of Gas Sales increased $14.9 million, or 17.7%, in 2018 compared to 2017. This increase reflects higher sales of natural gas and higher wholesale natural gas prices. The Company reconciles and recovers the approved Cost of Gas Sales in its rates at cost on a pass through basis and therefore changes in approved expenses do not affect earnings.

In 2017, Cost of Gas increased $6.7 million, or 8.6%, compared to 2016. This increase reflects higher sales of natural gas and higher wholesale natural gas prices, partially offset by an increase in the amount of natural gas purchased by customers directly from third-party suppliers.

Cost of Electric Sales Cost of Electric Sales includes the cost of electric supply as well as other energy supply related restructuring costs, including power supply buyout costs, and spending on energy efficiency programs. Cost of Electric Sales increased $17.4 million, or 15.3%, in 2018 compared to 2017. This increase reflects higher wholesale electricity prices and a decrease in the amount of electricity purchased by customers directly from third-party suppliers. The Company reconciles and recovers the approved Cost of Electric Sales in its rates at cost on a pass through basis and therefore changes in approved expenses do not affect earnings.

In 2017, Cost of Electric Sales increased $6.0 million, or 5.6%, compared to 2016. This increase reflects higher wholesale electricity prices and a decrease in the amount of electricity purchased by customers directly from third-party suppliers.

Operation and Maintenance O&M expense includes electric and gas utility operating costs, and the operating costs of the Company s non-regulated business activities. Total O&M expenses increased $5.0 million, or 7.8%, in 2018 compared to 2017. The change in O&M expense reflects higher labor costs of $1.8 million and higher utility operating costs of $4.0 million, partially offset by lower professional fees of $0.8 million. The higher utility operating costs include a non-recurring temporary rate adjustment which increased O&M expenses by $1.2 million in the second quarter of 2018, which was offset by a corresponding increase in gas revenue, and also includes higher bad debt expense of $0.8 million and higher storm-related and other distribution and transmission systems maintenance costs of $2.0 million.

In 2017, total O&M expenses increased $3.1 million, or 5.0%, compared to 2016. The change in O&M expenses reflects higher compensation and benefit costs of $1.2 million and higher utility operating costs of $1.9 million. Utility operating costs include higher pass-through regulatory and vegetation management costs of $1.1 million, which are recovered on a reconciling basis in sales margins.

Depreciation and Amortization Depreciation and Amortization expense increased $3.5 million, or 7.5%, in 2018 compared to 2017, reflecting higher depreciation on higher utility plant in service and higher amortization of information technology costs, partially offset by lower amortization of deferred major storm costs which were amortized for recovery over multi-year periods.

In 2017, Depreciation and Amortization expense increased $0.3 million, or 0.6%, compared to 2016, reflecting higher utility plant assets in service, partially offset by lower amortization of deferred major storm costs which were amortized for recovery over multi-year periods.

Taxes Other Than Income Taxes Taxes Other Than Income Taxes increased $1.3 million, or 6.2%, in 2018 compared to 2017, primarily reflecting higher local property tax rates on higher levels of utility plant in service and higher payroll taxes.

In 2017, Taxes Other Than Income Taxes increased $1.5 million, or 7.7%, compared to 2016, primarily reflecting higher local property tax rates on higher levels of utility plant assets in service.

Interest Expense, net

Interest expense is presented in the Consolidated Financial Statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. Certain reconciling rate mechanisms used by the Company s distribution utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated (See Note 5 to the accompanying Consolidated Financial Statements).

Interest Expense, net increased $0.9 million, or 3.9%, in 2018 compared to 2017 reflecting interest on higher short-term debt rates and higher levels of long-term debt.

In 2017, Interest Expense, increased $0.6 million, or 2.7%, compared to 2016 reflecting interest on higher levels of short-term debt, partially offset by higher net interest income on regulatory assets/liabilities and repayment of higher cost long-term debt.

Other Expense (Income), net

Other Expense, net was essentially unchanged in 2018 compared to 2017 and increased $0.6 million in 2017 compared to 2016. The increase in 2017 reflects higher retirement benefit costs in 2017 compared to 2017. In 2018, the Company adopted ASU No. 2017-07, Compensation Retirement Benefits (Topic 715) which amends the existing guidance relating to the presentation of net periodic pension cost and net periodic other post-retirement benefit costs. On a retrospective basis, the amendment requires an employer to separate the service cost component from the other components of net benefit cost and provides explicit guidance on how to present the service cost component and other components in the income statement.

Accordingly, for all periods presented in the Consolidated Financial Statements in this Form 10-K for the year ended December 31, 2018, the service cost component of the Company s net periodic benefit costs is reported in Operations and Maintenance in the Operating Expenses section of the Consolidated Statements of Earnings while the other components of net periodic benefit costs are reported in the Other Expense (Income), net section of the Consolidated Statements of Earnings. Prior to adoption, the Company reported all components of its net periodic benefit costs in Operations and Maintenance in the Operating Expenses section of the Consolidated Statements of Earnings. There are $5.5 million, $5.7 million and $4.9 million of non-service cost net periodic benefit costs reported in Other Expense (Income), net for 2018, 2017 and 2018, respectively, net of amounts deferred as regulatory assets for future recovery.

Income Taxes

Federal and State Income Taxes decreased $9.1 million in 2018 compared to 2017 reflecting $6.3 million from the lower tax rate on pre-tax earnings in 2018 and the current tax benefit of $2.8 million of book/tax temporary differences turning at the lower income tax rate from the TCJA in 2018. (See Note 9 to the accompanying Consolidated Financial Statements).

In 2017, Income Taxes increased $2.1 million compared to 2016 reflecting higher pre-tax earnings in 2017.

LIQUIDITY, COMMITMENTS AND CAPITAL REQUIREMENTS

Sources of Capital

Unitil requires capital to fund utility plant additions, working capital and other utility expenditures recovered in subsequent periods through regulated rates. The capital necessary to meet these requirements is derived primarily from internally-generated funds, which consist of cash flows from operating activities. The Company initially supplements internally-generated funds through short-term bank borrowings, as needed, under its unsecured revolving Credit Facility. Periodically, the Company replaces portions of its short-term debt with long-term financings more closely matched to the long-term nature of its utility assets. Additionally, from time to time, the Company has accessed the public capital markets through public offerings of equity securities. The Company s utility operations are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows. The amount, type and timing of any future financing will vary from year to year based on capital needs and maturity or redemptions of securities.

The Company and its subsidiaries are individually and collectively members of the Unitil Cash Pool (the Cash Pool). The Cash Pool is the financing vehicle for day-to-day cash borrowing and investing. The Cash Pool allows for an efficient exchange of cash among the Company and its subsidiaries. The interest rates charged to the subsidiaries for borrowing from the Cash Pool are based on actual interest costs from lenders under the Company s revolving Credit Facility. At December 31, 2018 and December 31, 2017, the Company and all of its subsidiaries were in compliance with the regulatory requirements to participate in the Cash Pool.

On July 25, 2018, the Company entered into a Second Amended and Restated Credit Agreement (the Credit Facility) with a syndicate of lenders, which amended and restated in its entirety the Company s prior credit agreement, dated as of October 4, 2013, as amended. The Credit Facility extends to July 25, 2023, subject to two one-year extensions and has a borrowing limit of $120 million, which includes a $25 million sublimit for the issuance of standby letters of credit. The Credit Facility provides the Company with the ability to elect that borrowings under the Credit Facility bear interest under several options, including at a daily fluctuating rate of interest per annum equal to one-month London Interbank Offered Rate plus 1.125%. Provided there is no event of default, the Company may increase the borrowing limit under the Credit Facility by up to $50 million.

The Company utilizes the Credit Facility for cash management purposes related to its short-term operating activities. Total gross borrowings were $265.6 million and $234.9 million for the years ended December 31, 2018 and December 31, 2017, respectively. Total gross repayments were $221.1 million and $278.5 million for the years ended December 31, 2018 and December 31, 2017, respectively. The following table details the borrowing limits, amounts outstanding and amounts available under the revolving Credit Facility as of December 31, 2018 and December 31, 2017:

Revolving Credit Facility (millions)

	December 31,	
	2018	**2017**
Limit	**$ 120.0**	$ 120.0
Short-Term Borrowings Outstanding	**$ 82.8**	$ 38.3
Letters of Credit Outstanding	**$**	$ 0
Available	**$ 37.2**	$ 81.7

The Credit Facility contains customary terms and conditions for credit facilities of this type, including affirmative and negative covenants. There are restrictions on, among other things, Unitil s and its subsidiaries ability to permit liens or incur indebtedness, and restrictions on Unitil s ability to merge or consolidate with another entity or change its line of business. The affirmative and negative covenants under the Credit Facility shall apply to Unitil until the Credit Facility terminates and all amounts borrowed under the Credit Facility are paid in full (or with respect to letters of credit, they are cash collateralized). The only financial covenant in the Credit Facility provides that Unitil s Funded Debt to Capitalization (as each term is defined in the Credit Facility) cannot exceed 65%, tested on a quarterly basis. At December 31, 2018 and December 31, 2017, the Company was in compliance with the covenants contained in the Credit Facility in effect on that date. (See also Credit Arrangements in Note 5.)

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Issuance of Long-Term Debt On November 30, 2018 Unitil Energy issued $30 million of First Mortgage Bonds due November 30, 2048 at 4.18%. Unitil Energy used the net proceeds from this offering to repay short-term debt and for general corporate purposes. Approximately $0.5 million of costs associated with these issuances have been netted against long-term debt for presentation purposes on the Consolidated Balance Sheets.

On November 1, 2017, Northern Utilities issued $20 million of Notes due 2027 at 3.52% and $30 million of Notes due 2047 at 4.32%. Fitchburg issued $10 million of Notes due 2027 at 3.52% and $15 million of Notes due 2047 at 4.32%. Granite State issued $15 million of Notes due 2027 at 3.72%. Northern Utilities, Fitchburg and Granite State used the net proceeds from these offerings to refinance higher cost long-term debt that matured in 2017, to repay short-term debt and for general corporate purposes. Approximately $0.7 million of costs associated with these issuances have been netted against Long-Term Debt for presentation purposes on the Consolidated Balance Sheets.

Unitil Corporation and its utility subsidiaries, Fitchburg, Unitil Energy, Northern Utilities, and Granite State are currently rated BBB+ by Standard & Poor s Ratings Services. Unitil Corporation and Granite State are currently rated Baa2 , and Fitchburg, Unitil Energy and Northern Utilities are currently rated Baa1 by Moody s Investors Services.

In April 2014, Unitil Service Corp. entered into a financing arrangement for various information systems and technology equipment. The financing arrangement is structured as a capital lease obligation. Final funding under this capital lease occurred on October 30, 2015, resulting in total funding of $13.4 million. The capital lease matures on September 30, 2020. As of December 31, 2018, there are $2.8 million of current and $2.3 million of noncurrent obligations under this capital lease on the Company s Consolidated Balance Sheets.

The continued availability of various methods of financing, as well as the choice of a specific form of security for such financing, will depend on many factors, including, but not limited to: security market conditions; general economic climate; regulatory approvals; the ability to meet covenant issuance restrictions; the level of earnings, cash flows and financial position; and the competitive pricing offered by financing sources.

Contractual Obligations

The table below lists the Company s known specified contractual obligations as of December 31, 2018.

		Payments Due by Period			
Contractual Obligations (millions) as of December 31, 2018	**Total**	**2019**	**2020 2021**	**2022 2023**	**2024 & Beyond**
Long-Term Debt	$ 409.3	$ 18.8	$ 28.4	$ 34.9	$ 327.2
Interest on Long-Term Debt	303.9	22.3	41.4	36.7	203.5
Gas Supply Contracts	489.9	41.2	69.1	70.5	309.1
Electric Supply Contracts	14.1	1.7	2.7	2.2	7.5
Other (Including Capital and Operating Lease Obligations)	10.4	4.5	4.7	1.1	0.1
Total Contractual Cash Obligations	$ 1,227.6	$ 88.5	$ 146.3	$ 145.4	$ 847.4

The Company and its subsidiaries have material energy supply commitments that are discussed in Note 7 to the accompanying Consolidated Financial Statements. Cash outlays for the purchase of electricity and natural gas to serve customers are subject to reconciling recovery through periodic changes in rates, with carrying charges on deferred balances. From year to year, there are likely to be timing differences associated with the cash recovery of such costs, creating under- or over-recovery situations at any point in time. Rate recovery mechanisms are typically designed to collect the under-recovered cash or refund the over-collected cash over subsequent periods of less than a year.

The Company provides limited guarantees on certain energy and natural gas storage management contracts entered into by the distribution utilities. The Company s policy is to limit the duration of these guarantees. As of December 31, 2018, there were approximately $4.3 million of guarantees outstanding.

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Northern Utilities enters into asset management agreements under which Northern Utilities releases certain natural gas pipeline and storage assets, resells the natural gas storage inventory to an asset manager and subsequently repurchases the inventory over the course of the natural gas heating season at the same price at which it sold the natural gas inventory to the asset manager. There was $8.4 million and $8.5 million of natural gas storage inventory at December 31, 2018 and 2017, respectively, related to these asset management agreements. The amount of natural gas inventory released in December 2018, which was payable in January 2019, was $0.9 million and recorded in Accounts Payable at December 31, 2018. The amount of natural gas inventory released in December 2017, which was payable in January 2018, was $3.1 million and recorded in Accounts Payable at December 31, 2017.

Benefit Plan Funding

The Company, along with its subsidiaries, made cash contributions to its Pension Plan in the amounts of $16.6 million and $4.1 million in 2018 and 2017, respectively. The Company, along with its subsidiaries, contributed $4.0 million to Voluntary Employee Benefit Trusts (VEBTs) in each of 2018 and 2017. The Company, along with its subsidiaries, expects to continue to make contributions to its Pension Plan and the VEBTs in 2019 and future years at minimum required and discretionary funding levels consistent with the amounts recovered in the distribution utilities rates for these benefit plans. See Note 10 (Retirement Benefit Plans) to the accompanying Consolidated Financial Statements.

Off-Balance Sheet Arrangements

The Company and its subsidiaries do not currently use, and are not dependent on the use of, off-balance sheet financing arrangements such as securitization of receivables or obtaining access to assets or cash through special purpose entities or variable interest entities. Unitil s subsidiaries conduct a portion of their operations in leased facilities and also lease some of their vehicles, machinery and office equipment under both capital and operating lease arrangements. Additionally, as of December 31, 2018, there were approximately $4.3 million of guarantees on certain energy and natural gas storage management contracts entered into by the distribution utilities outstanding. See Note 5 (Debt and Financing Arrangements) to the accompanying Consolidated Financial Statements.

Cash Flows

Unitil s utility operations, taken as a whole, are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows. The tables below summarize the major sources and uses of cash (in millions) for 2018 and 2017.

	2018	**2017**
Cash Provided by Operating Activities	**$ 78.5**	$ 86.2

Cash Provided by Operating Activities Cash Provided by Operating Activities was $78.5 million in 2018, a decrease of $7.7 million compared to 2017.

Cash flow from net income, adjusted for the total of non-cash charges to depreciation, amortization and deferred taxes, was $91.4 million in 2018 compared to $93.4 million in 2017, reflecting a decrease of $2.0 million. The increase in net income of $4.0 million in 2018 compared to 2017 is primarily attributable to increases in natural gas margins and customer growth. The increase in depreciation and amortization of $3.5 million in 2018 compared to 2017 reflects higher utility depreciation from higher net utility plant in service, partially offset by decreases in amortization of prior storm costs. The decrease in the deferred tax provision of $9.5 million in 2018 compared to 2017 is primarily a result of decreased tax depreciation deductions and due to the reduction of the corporate income tax rate per the TCJA.

Changes in working capital items resulted in a $3.9 million source of cash in 2018 compared to a ($9.7) million use of cash in 2017, representing an increase of $13.6 million. The change in working capital in 2018 compared to 2017 is reflective of normal fluctuations in business and operating conditions.

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Deferred Regulatory and Other Charges decreased by $5.2 million in 2018 compared to 2017. The change in Other, net in 2018 compared to 2017 was ($14.1) million, primarily driven by increased contributions to the Company s retirement plans.

	2018	2017
Cash (Used in) Investing Activities	**$ (102.4)**	$ (119.3)

Cash (Used in) Investing Activities Cash Used in Investing Activities was ($102.4) million in 2018 compared to ($119.3) million in 2017. The actual capital spending in both 2018 and 2017 is related to utility capital expenditures for electric and gas utility system additions. The lower spending in 2018 is largely attributable to special major information technology investments and the construction of a new distribution operations center for Fitchburg, which were in addition to the normal level of utility capital expenditures. The Company s projected capital spending range for 2019 is $120 million to $130 million.

	2018	2017
Cash Provided by Financing Activities	**$ 22.8**	$ 36.2

Cash Provided by Financing Activities Cash Provided by Financing Activities was $22.8 million in 2018 compared to $36.2 million in 2017. The lower cash provided by financing activities in 2018 compared to 2017 is primarily attributable to the repayment of long-term debt of ($12.9) million. Other changes in financing activities in 2018 compared to 2017 total ($0.5) million.

FINANCIAL COVENANTS AND RESTRICTIONS

The agreements under which the Company and its subsidiaries issue long-term debt contain various covenants and restrictions. These agreements do not contain any covenants or restrictions pertaining to the maintenance of financial ratios or the issuance of short-term debt. These agreements do contain covenants relating to, among other things, the issuance of additional long-term debt, cross-default provisions, business combinations and covenants restricting the ability to (i) pay dividends, (ii) incur indebtedness and liens, (iii) merge or consolidate with another entity or (iv) sell, lease or otherwise dispose of all or substantially all assets. See Note 5 (Debt and Financing Arrangements) to the accompanying Consolidated Financial Statements.

Unitil s Credit Facility contains customary terms and conditions for credit facilities of this type, including affirmative and negative covenants. There are restrictions on, among other things, Unitil s and its subsidiaries ability to permit liens or incur indebtedness, and restrictions on Unitil s ability to merge or consolidate with another entity or change its line of business. The affirmative and negative covenants under the Credit Facility shall apply to Unitil until the Credit Facility terminates and all amounts borrowed under the Credit Facility are paid in full (or with respect to letters of credit, they are cash collateralized). The only financial covenant in the Credit Facility provides that Unitil s Funded Debt to Capitalization (as each term is defined in the Credit Facility) cannot exceed 65%, tested on a quarterly basis. At December 31, 2018 and December 31, 2017, the Company was in compliance with the covenants contained in the Credit Facility in effect on that date.

The Company and its subsidiaries are currently in compliance with all such covenants in these debt instruments.

DIVIDENDS

Unitil s annual common dividend was $1.46 per common share in 2018, $1.44 per common share in 2017, and $1.42 per share in 2016. Unitil s dividend policy is reviewed periodically by the Board of Directors. Unitil has maintained an unbroken record of quarterly dividend payments since trading began in Unitil s common stock. At its January 2019 meeting, the Unitil Corporation Board of Directors declared a quarterly dividend on the Company s common stock of $0.370 per share, an increase of $0.005 per share on a quarterly basis, resulting in an increase in the effective annualized dividend rate to $1.48 from $1.46. The amount and timing of all dividend payments are subject to the discretion of the Board of Directors and will

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depend upon business conditions, results of operations, financial conditions and other factors. In addition, the ability of the Company s subsidiaries to pay dividends or make distributions to Unitil, and, therefore, Unitil s ability to pay dividends, depends on, among other things:

- the actual and projected earnings and cash flow, capital requirements and general financial condition of the Company s subsidiaries;
- the prior rights of holders of existing and future preferred stock, mortgage bonds, long-term notes and other debt issued by the Company s subsidiaries;
- the restrictions on the payment of dividends contained in the existing loan agreements of the Company s subsidiaries and that may be contained in future debt agreements of the Company s subsidiaries, if any; and
- limitations that may be imposed by New Hampshire, Massachusetts and Maine state regulatory agencies.

In addition, before the Company can pay dividends on its common stock, it has to satisfy its debt obligations and comply with any statutory or contractual limitations. See *Financial Covenants and Restrictions*, above, as well as Note 5 (Debt and Financing Arrangements) to the accompanying Consolidated Financial Statements.

LEGAL PROCEEDINGS

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. The Company believes, based upon information furnished by counsel and others, that the ultimate resolution of these claims will not have a material impact on its financial position, operating results or cash flows. Refer to Legal Proceedings in Note 8 of the Consolidated Financial Statements for a discussion of legal proceedings.

REGULATORY MATTERS

See Note 8 to the Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company s Consolidated Financial Statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In making those estimates and assumptions, the Company is sometimes required to make difficult, subjective and/or complex judgments about the impact of matters that are inherently uncertain and for which different estimates that could reasonably have been used could have resulted in material differences in its financial statements. If actual results were to differ significantly from those estimates, assumptions and judgment, the financial position of the Company could be materially affected and the results of operations of the Company could be materially different than reported. The following is a summary of the Company s most critical accounting policies, which are defined as those policies where judgments or uncertainties could materially affect the application of those policies. For a complete discussion of the

Company s significant accounting policies, refer to the financial statements and Note 1: Summary of Significant Accounting Policies.

Regulatory Accounting The Company s principal business is the distribution of electricity and natural gas by the three distribution utilities: Unitil Energy, Fitchburg and Northern Utilities. Unitil Energy and Fitchburg are subject to regulation by the FERC. Fitchburg is also regulated by the MDPU, Unitil Energy is regulated by the NHPUC and Northern Utilities is regulated by the MPUC and NHPUC. Granite State, the Company s natural gas transmission pipeline, is regulated by the FERC. Accordingly, the Company uses the Regulated Operations guidance as set forth in the Financial Accounting Standards Board Accounting Standards Codification (FASB Codification). In accordance with the FASB Codification, the Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

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The FASB Codification specifies the economic effects that result from the cause and effect relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or regulatory assets. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or regulatory liabilities.

The Company s principal regulatory assets and liabilities are included on the Company s Consolidated Balance Sheet and a summary of the Company s Regulatory Assets is provided in Note 1 thereto. Generally, the Company receives a return on investment on its regulated assets for which a cash outflow has been made. Regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company s consolidated financial statements.

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

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

Fitchburg is subject to revenue decoupling. Revenue decoupling is the term given to the elimination of the dependency of a utility s distribution revenue on the volume of electricity or natural gas sales. The difference between distribution revenue amounts billed to customers and the targeted revenue decoupling amounts is recognized as an increase or a decrease in Accrued Revenue which forms the basis for resetting rates for future cash recoveries from, or credits to, customers. These revenue decoupling targets may be adjusted as a result of rate cases that the Company files with the MDPU. The Company estimates that revenue decoupling applies to approximately 27% and 11% of Unitil s total annual electric and natural gas sales volumes, respectively.

Allowance for Doubtful Accounts The Company recognizes a provision for doubtful accounts each month based upon the Company s experience in collecting electric and gas utility service accounts receivable in prior years. At the end of each month, an analysis of the delinquent receivables is performed which takes into account an assumption about the cash recovery of delinquent receivables. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company s distribution utilities are authorized by regulators to recover the costs of their energy commodity portion of bad debts through rate mechanisms. Also, the electric and gas divisions of Fitchburg are authorized to recover through rates past due amounts associated with hardship accounts that are protected from shut-off. Evaluating the adequacy of the Allowance for Doubtful

Accounts requires judgment about the assumptions used in the analysis. It has been the Company s experience that the assumptions it has used in evaluating the adequacy of the Allowance for Doubtful Accounts have proven to be reasonably accurate.

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Retirement Benefit Obligations The Company sponsors the Unitil Corporation Retirement Plan (Pension Plan), which is a defined benefit pension plan covering substantially all of its employees. The Company also sponsors a non-qualified retirement plan, the Unitil Corporation Supplemental Executive Retirement Plan (SERP), covering certain executives of the Company, and an employee 401(k) savings plan. Additionally, the Company sponsors the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan), primarily to provide health care and life insurance benefits to retired employees.

The FASB Codification requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas rates. The Company s RBO and reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. The Company has made critical estimates related to actuarial assumptions, including assumptions of expected returns on plan assets, future compensation, health care cost trends, and appropriate discount rates. The Company s RBO are affected by actual employee demographics, the level of contributions made to the plans, earnings on plan assets, and health care cost trends. Changes made to the provisions of these plans may also affect current and future costs. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status and net periodic benefit costs could have a material impact on the Company s financial statements. The discount rate assumptions used in determining retirement plan costs and retirement plan obligations are based on an assessment of current market conditions using high quality corporate bond interest rate indices and pension yield curves. For the year ended December 31, 2018, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $589,000 in the Net Periodic Benefit Cost for the Pension Plan. Similarly, a change of 0.50% in the expected long-term rate of return on plan assets would have resulted in an increase or decrease of approximately $502,000 in the Net Periodic Benefit Cost for the Pension Plan. (See Note 10 to the accompanying Consolidated Financial Statements).

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

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

Commitments and Contingencies The Company s accounting policy is to record a nd/or disclose commitments and contingencies in accordance with the FASB Codification as it applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2018, the Company is not aware of any material commitments or contingencies other than those disclosed in the Significant Contractual Obligations table in the Contractual Obligations section above and the Commitments and Contingencies footnote to the Company s consolidated financial statements below.

Refer to Recently Issued Pronouncements in Note 1 of the Notes of Consolidated Financial Statements for information regarding recently issued accounting standards.

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For further information regarding the foregoing matters, see Note 1 (Summary of Significant Accounting Policies), Note 9 (Income Taxes), Note 7 (Energy Supply), Note 10 (Retirement Benefit Plans) and Note 8 (Commitment and Contingencies) to the Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Please also refer to Part I, Item 1A. Risk Factors .

INTEREST RATE RISK

As discussed above, Unitil meets its external financing needs by issuing short-term and long-term debt. The majority of debt outstanding represents long-term notes bearing fixed rates of interest. Changes in market interest rates do not affect interest expense resulting from these outstanding long-term debt securities. However, the Company periodically repays its short-term debt borrowings through the issuance of new long-term debt securities. Changes in market interest rates may affect the interest rate and corresponding interest expense on any new issuances of long-term debt securities. In addition, short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease interest expense in future periods. For example, if the average amount of short-term debt outstanding was $25 million for the period of one year, a change in interest rates of 1% would result in a change in annual interest expense of approximately $250,000. The average interest rate on short-term borrowings and intercompany money pool transactions was 3.3%, 2.4%, and 1.8% during 2018, 2017, and 2016, respectively.

COMMODITY PRICE RISK

Although Unitil s three distribution utilities are subject to commodity price risk as part of their traditional operations, the current regulatory framework within which these companies operate allows for full collection of electric power and natural gas supply costs in rates on a pass-through basis. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, as discussed in the section entitled *Rates and Regulation* in Part I, Item 1 (Business) and in Note 8 (Commitments and Contingencies) to the accompanying Consolidated Financial Statements, the Company has divested its commodity-related contracts and therefore, further reduced its exposure to commodity risk.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Unitil Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Unitil Corporation and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of earnings, changes in common stock equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). We also have audited the Company s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework (2013) issued by COSO.

Basis for Opinions

The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of

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records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Boston, MA

January 31, 2019

We have served as the Company s auditor since 2014.

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CONSOLIDATED STATEMENTS OF EARNINGS

(Millions, except per share data)

Year Ended December 31,	**2018**	**2017**	**2016**
Operating Revenues:			
Gas	**$ 216.1**	$ 194.0	$ 181.2
Electric	**223.3**	206.2	196.1
Other	**4.7**	6.0	6.1
Total Operating Revenues	**444.1**	406.2	383.4
Operating Expenses:			
Cost of Gas Sales	**99.2**	84.3	77.6
Cost of Electric Sales	**131.4**	114.0	108.0
Operation and Maintenance	**69.5**	64.5	61.4
Depreciation and Amortization	**50.4**	46.9	46.6
Taxes Other Than Income Taxes	**22.4**	21.1	19.6
Total Operating Expenses	**372.9**	330.8	313.2
Operating Income	**71.2**	75.4	70.2
Interest Expense, net	**24.0**	23.1	22.5
Other Expense (Income), net	**5.8**	5.8	5.2
Income Before Income Taxes	**41.4**	46.5	42.5
Income Taxes	**8.4**	17.5	15.4
Net Income Applicable to Common Shares	**$ 33.0**	$ 29.0	$ 27.1
Earnings per Common Share Basic and Diluted	**$ 2.23**	$ 2.06	$ 1.94
Weighted Average Common Shares Outstanding (Basic and Diluted)	**14.8**	14.1	14.0

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

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CONSOLIDATED BALANCE SHEETS *(Millions)*

ASSETS

December 31,	2018	2017
Current Assets:		
Cash and Cash Equivalents	**$ 7.8**	$ 8.9
Accounts Receivable, net	**66.8**	67.4
Accrued Revenue	**54.7**	53.3
Exchange Gas Receivable	**8.1**	5.8
Gas Inventory	**0.8**	0.6
Materials and Supplies	**7.0**	6.9
Prepayments and Other	**7.0**	8.4
Total Current Assets	**152.2**	151.3
Utility Plant:		
Gas	**760.6**	699.6
Electric	**500.1**	476.7
Common	**83.1**	67.4
Construction Work in Progress	**25.5**	35.5
Utility Plant	**1,369.3**	1,279.2
Less: Accumulated Depreciation	**332.5**	307.7
Net Utility Plant	**1,036.8**	971.5
Other Noncurrent Assets:		
Regulatory Assets	**99.0**	109.6
Other Assets	**10.3**	9.5

Total Other Noncurrent Assets	**109.3**	119.1
TOTAL ASSETS	**$ 1,298.3**	$ 1,241.9

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

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CONSOLIDATED BALANCE SHEETS (cont.) *(Millions, except number of shares)*

LIABILITIES AND CAPITALIZATION

December 31,	2018	2017
Current Liabilities:		
Accounts Payable	**$ 42.6**	$ 41.5
Short-Term Debt	**82.8**	38.3
Long-Term Debt, Current Portion	**18.4**	29.8
Regulatory Liabilities	**11.5**	9.2
Energy Supply Obligations	**13.4**	9.7
Environmental Obligations	**0.6**	0.5
Capital Lease Obligations	**3.1**	3.1
Other Current Liabilities	**20.1**	18.9
Total Current Liabilities	**192.5**	151.0
Noncurrent Liabilities:		
Retirement Benefit Obligations	**121.5**	150.1
Deferred Income Taxes, net	**97.8**	82.9
Cost of Removal Obligations	**90.7**	84.3
Regulatory Liabilities	**47.0**	48.9
Capital Lease Obligations	**2.7**	5.7
Environmental Obligations	**1.4**	1.6
Other Noncurrent Liabilities	**6.0**	4.3
Total Noncurrent Liabilities	**367.1**	377.8
Capitalization:		
Long-Term Debt, Less Current Portion	**387.4**	376.3
Stockholders Equity:		
Common Equity (Outstanding 14,876,955 and 14,815,585 Shares)	**279.1**	275.8
Retained Earnings	**72.0**	60.8

Total Common Stock Equity	**351.1**	336.6
Preferred Stock	**0.2**	0.2
Total Stockholders Equity	**351.3**	336.8
Total Capitalization	**738.7**	713.1
Commitments and Contingencies (Note 8)		
TOTAL LIABILITIES AND CAPITALIZATION	**$ 1,298.3**	$ 1,241.9

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS *(Millions)*

Year Ended December 31,	**2018**	**2017**	**2016**
Operating Activities:			
Net Income	**$ 33.0**	$ 29.0	$ 27.1
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:			
Depreciation and Amortization	**50.4**	46.9	46.6
Deferred Tax Provision	**8.0**	17.5	15.4
Changes in Working Capital Items:			
Accounts Receivable	**0.6**	(14.5)	(5.4)
Accrued Revenue	**(1.4)**	(3.8)	(11.1)
Regulatory Liabilities	**2.3**	(1.2)	(5.2)
Exchange Gas Receivable	**(2.3)**	2.5	2.8
Accounts Payable	**1.1**	9.1	(0.9)
Other Changes in Working Capital Items	**3.6**	(1.8)	(1.0)
Deferred Regulatory and Other Charges	**(11.3)**	(6.1)	(5.0)
Other, net	**(5.5)**	8.6	5.0
Cash Provided by Operating Activities	**78.5**	86.2	68.3
Investing Activities:			
Property, Plant and Equipment Additions	**(102.4)**	(119.3)	(98.1)
Cash Used In Investing Activities	**(102.4)**	(119.3)	(98.1)
Financing Activities:			
Proceeds from (Repayment of) Short-Term Debt, net	**44.5**	(43.6)	39.9
Issuance of Long-Term Debt	**29.9**	89.3	30.0
Repayment of Long-Term Debt	**(30.1)**	(17.2)	(19.0)
Decrease in Capital Lease Obligations	**(3.0)**	(2.5)	(2.8)
Net Increase (Decrease) in Exchange Gas Financing	**2.1**	(2.4)	(2.5)
Dividends Paid	**(21.8)**	(20.4)	(20.0)
Proceeds from Issuance of Common Stock	**1.2**	33.0	1.3
Cash Provided by Financing Activities	**22.8**	36.2	26.9

Net (Decrease) Increase in Cash		**(1.1)**		3.1		(2.9)
Cash at Beginning of Year		**8.9**		5.8		8.7
Cash at End of Year	**$**	**7.8**	$	8.9	$	5.8
Supplemental Information:						
Interest Paid	**$**	**24.6**	$	23.0	$	22.1
Income Taxes Paid	**$**	**0.4**	$		$	1.6
Payments on Capital Leases	**$**	**3.3**	$	3.3	$	3.4
Capital Expenditures Included in Accounts Payable	**$**	**0.5**	$	1.1	$	0.3
Non-Cash Additions to Property, Plant and Equipment	**$**		$		$	3.5

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

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CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY *(Millions, except shares data)*

	Common Equity	Retained Earnings	Total
Balance at January 1, 2016	$ 237.5	$ 45.1	**$ 282.6**
Net Income for 2016		27.1	**27.1**
Dividends ($1.42 per Common Share)		(20.0)	**(20.0)**
Shares Issued Under Stock Plans	1.9		**1.9**
Issuance of 32,095 Common Shares (See Note 6)	1.3		**1.3**
Balance at December 31, 2016	240.7	52.2	**292.9**
Net Income for 2017		29.0	**29.0**
Dividends ($1.44 per Common Share)		(20.4)	**(20.4)**
Shares Issued Under Stock Plans	2.1		**2.1**
Issuance of 26,256 Common Shares (See Note 6)	1.3		**1.3**
Issuance of 690,000 Common Shares (See Note 6)	31.7		**31.7**
Balance at December 31, 2017	275.8	60.8	**336.6**
Net Income for 2018		33.0	**33.0**
Dividends ($1.46 per Common Share)		(21.8)	**(21.8)**
Shares Issued Under Stock Plans	2.1		**2.1**
Issuance of 25,932 Common Shares (See Note 6)	1.2		**1.2**
Balance at December 31, 2018	$ 279.1	$ 72.0	**$ 351.1**

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

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Note 1: Summary of Significant Accounting Policies

Nature of Operations Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005. The following companies are wholly-owned subsidiaries of Unitil: Unitil Energy Systems, Inc. (Unitil Energy), Fitchburg Gas and Electric Light Company (Fitchburg), Northern Utilities, Inc. (Northern Utilities), Granite State Gas Transmission, Inc. (Granite State), Unitil Power Corp. (Unitil Power), Unitil Realty Corp. (Unitil Realty), Unitil Service Corp. (Unitil Service) and its non-regulated business unit Unitil Resources, Inc. (Unitil Resources). Usource, Inc. and Usource L.L.C. are wholly-owned subsidiaries of Unitil Resources.

The Company s earnings are seasonal and are typically higher in the first and fourth quarters when customers use natural gas for heating purposes.

Unitil s principal business is the local distribution of electricity in the southeastern seacoast and capital city areas of New Hampshire and the greater Fitchburg area of north central Massachusetts and the local distribution of natural gas in southeastern New Hampshire, portions of southern Maine to the Lewiston-Auburn area and in the greater Fitchburg area of north central Massachusetts. Unitil has three distribution utility subsidiaries, Unitil Energy, which operates in New Hampshire; Fitchburg, which operates in Massachusetts; and Northern Utilities, which operates in New Hampshire and Maine (collectively referred to as the distribution utilities).

Granite State is an interstate natural gas transmission pipeline company, operating 86 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to three major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and, to a lesser extent, third-party marketers.

A fifth utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for Unitil Energy. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of Unitil Energy on May 1, 2003 and divested of its long-term power supply contracts through the sale of the entitlements to the electricity associated with various electric power supply contracts it had acquired to serve Unitil Energy s customers.

Unitil also has three other wholly-owned subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology, energy management and management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company s corporate office in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Resources is the Company s wholly-owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly- owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to a national client base of large commercial and industrial customers.

Basis of Presentation

Principles of Consolidation The Company s consolidated financial statements include the accounts of Unitil and all of its wholly-owned subsidiaries and all intercompany transactions are eliminated in consolidation. Certain reclassifications of prior year data were made in the accompanying financial statements. These reclassifications were made to conform to the current year presentation related to the adoption of new accounting standards.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and requires disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Level 1	Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
Level 2	Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
Level 3	Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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

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

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

Utility Revenue Recognition Gas Operating Revenues and Electric Operating Revenues consist of billed and unbilled revenue and revenue from rate adjustment mechanisms. Billed and unbilled revenue includes delivery revenue and pass-through revenue, recognized according to tariffs approved by federal and state regulatory commissions which determine the amount of revenue the Company will record for these items. Revenue from rate adjustment mechanisms is accrued revenue, recognized in connection with rate adjustment mechanisms, and authorized by regulators for recognition in the current period for future cash recoveries from, or credits to, customers.

Billed and unbilled revenue is recorded when service is rendered or energy is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenues are calculated. These unbilled revenues are calculated each month based on estimated customer usage by class and applicable customer rates and are then reversed in the following month when billed to customers.

In the first quarter of 2018, the Company adopted Accounting Standards Update (ASU) 2014-09, and its subsequent clarifications and amendments outlined in ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2017-13, on a modified retrospective basis, which requires application to contracts with customers effective January 1, 2018, with the cumulative impact on contracts not yet completed as of December 31, 2017 recognized as an adjustment to the opening balance of Retained Earnings on the Company s Consolidated Balance Sheets. There was no cumulative effect of adoption to be recognized as an adjustment to the opening balance of Retained Earnings on the Company s Consolidated Balance Sheets. The adoption of this guidance did not have a material impact on the Consolidated Financial Statements as of the adoption date or for the twelve months ended December 31, 2018. A majority of the Company s revenue from contracts with customers continues to be recognized on a monthly basis based on applicable tariffs and customer monthly consumption. Such revenue is recognized using the invoice practical expedient which allows an entity to recognize revenue in the amount that directly corresponds to the value transferred to the customer.

As discussed below, the Company plans to disclose billed and unbilled revenue separately from rate adjustment mechanism revenue in the Notes to the Consolidated Financial Statements for periods in 2018 going forward, and will also provide this disclosure for prior periods for informational purposes.

The Company s billed and unbilled revenue meets the definition of revenues from contracts with customers as defined in ASU 2014-09. Revenue recognized in connection with rate adjustment mechanisms is consistent with the definition of alternative revenue programs in Accounting Standards Codification (ASC) 980-605-25-3, as the Company has the ability to adjust rates in the future as a result of past activities or completed events. ASU 2014-09 requires the Company to disclose separately the amount of revenues from contracts with customers and alternative revenue program revenues.

In the following tables, revenue is classified by the types of goods/services rendered and market/customer type. The lower revenues reported in the twelve months ended December 31, 2018 to account for the reduction in the corporate income tax rate under the Tax Cuts and Jobs Act of 2017 (TCJA) are shown separately in the tables below for informational purposes.

	Twelve Months Ended December 31, 2018		
Gas and Electric Operating Revenues ($ millions):	**Gas**	**Electric**	**Total**
Billed and Unbilled Revenue:			
Residential	$ 81.4	$ 123.6	$ 205.0
Commercial & Industrial	119.7	96.4	216.1
Other	13.3	11.3	24.6
Revenue Reductions TCJA	(3.7)	(2.6)	(6.3)
Total Billed and Unbilled Revenue	210.7	228.7	439.4
Rate Adjustment Mechanism Revenue	5.4	(5.4)	
Total Gas and Electric Operating Revenues	**$ 216.1**	**$ 223.3**	**$ 439.4**

	Twelve Months Ended December 31, 2017		
Gas and Electric Operating Revenues ($ millions):	**Gas**	**Electric**	**Total**
Billed and Unbilled Revenue:			
Residential	$ 71.2	$ 107.9	$ 179.1
Commercial & Industrial	102.8	87.7	190.5
Other	13.5	6.0	19.5
Total Billed and Unbilled Revenue	187.5	201.6	389.1
Rate Adjustment Mechanism Revenue	6.5	4.6	11.1
Total Gas and Electric Operating Revenues	**$ 194.0**	**$ 206.2**	**$ 400.2**

Gas and Electric Operating Revenues ($ millions):	Twelve Months Ended December 31, 2016 Gas	Electric	Total
Billed and Unbilled Revenue:			
Residential	$ 61.5	$ 101.9	$ 163.4
Commercial & Industrial	92.7	81.5	174.2
Other	11.2	4.9	16.1
Total Billed and Unbilled Revenue	165.4	188.3	353.7
Rate Adjustment Mechanism Revenue	15.8	7.8	23.6
Total Gas and Electric Operating Revenues	**$ 181.2**	**$ 196.1**	**$ 377.3**

Fitchburg is subject to revenue decoupling. Revenue decoupling is the term given to the elimination of the dependency of a utility s distribution revenue on the volume of electricity or natural gas sales. The difference between distribution revenue amounts billed to customers and the targeted revenue decoupling amounts is recorded as an increase or a decrease in Accrued Revenue, which forms the basis for resetting rates for future cash recoveries from, or credits to, customers. These revenue decoupling targets may be adjusted as a result of rate cases that the Company files with the MDPU. The Company estimates that revenue decoupling applies to approximately 27% and 11% of Unitil s total annual electric and natural gas sales volumes, respectively.

Other Operating Revenue Non-regulated Usource, Unitil s non-regulated subsidiary, conducts its business activities as a broker of competitive energy services. Usource does not take title to the electric and gas commodities which are the subject of the brokerage contracts. The Company records energy brokering revenues based upon the amount of electricity and gas delivered to customers through the end of the accounting period. Usource partners with certain entities to facilitate these brokerage services and pays these entities a fee under revenue sharing agreements.

As discussed above, the Company adopted ASU 2014-09 in the first quarter of 2018. There was no cumulative effect of adoption to be recognized as an adjustment to the opening balance of Retained Earnings on the Company s Consolidated Balance Sheets. ASU 2014-09 requires that payments made by Usource to third parties (Channel Partners) for revenue sharing agreements are recognized net, as a reduction from revenue, where those payments were previously recognized gross as an operating expense. Therefore, beginning in 2018 and going forward, payments made by Usource to Channel Partners for revenue sharing agreements are reported as Other in the Operating Revenues section of the Consolidated Statements of Earnings, along with Usource s revenues. Prior to the adoption of ASU 2014-09, payments by Usource to third parties for revenue sharing agreements are included as Operation and Maintenance in the Operating Expenses section of the Consolidated Statements of Earnings. Those Channel Partner payments were $1.0 million, $1.1 million and $1.0 million in 2018, 2017 and 2016, respectively.

If ASU 2014-09 had been in effect for 2017 and 2016, the result would have been corresponding reductions of $1.1 million and $1.0 million, respectively, in both Other in the Operating Revenues section of the Consolidated Statements of Earnings and Operation and Maintenance in the Operating Expenses section of the Company s Consolidated Statements of Earnings as shown in the tables below.

Other Operating Revenues ($ millions):	**Twelve Months Ended December 31**		
	As Reported	**If ASU 2014-09 Had Been in Effect**	
	2018	**2017**	**2016**
Usource Contract Revenue	**$ 5.7**	$ 6.0	$ 6.1
Less: Revenue Sharing Payments	**(1.0)**	(1.1)	(1.0)
Total Other Operating Revenues	**$ 4.7**	$ 4.9	$ 5.1

Operation and Maintenance Expense ($ millions):	**Twelve Months Ended December 31**		
	As Reported	**If ASU 2014-09 Had Been in Effect**	
	2018	**2017**	**2016**
Operation and Maintenance Expense	**$ 69.5**	$ 63.4	$ 60.4

Retirement Benefit Costs The Company sponsors the Unitil Corporation Retirement Plan (Pension Plan), the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan) and the Unitil Corporation Supplemental Executive Retirement Plan (SERP).The net periodic benefit costs associated with these benefit plans consist of service cost and other components (See Note 10 to the Consolidated Financial Statements). In the first quarter of 2018, the Company adopted ASU No. 2017-07, Compensation Retirement Benefits (Topic 715) which amends the existing guidance relating to the presentation of net periodic pension cost and net periodic other post-retirement benefit costs. On a retrospective basis, the amendment requires an employer to separate the service cost component from the other components of net benefit cost and provides explicit guidance on how to present the service cost component and other components in the income statement.

Accordingly, for all periods presented in the Consolidated Financial Statements in this Form 10-K for the twelve months ended December 31, 2018, the service cost component of the Company s net periodic benefit costs is reported in Operations and Maintenance in the Operating Expenses section of the Consolidated Statements of Earnings while the other components of net periodic benefit costs are reported in the Other Expense (Income), net section of the Consolidated Statements of Earnings. Prior to adoption, the Company reported all components of its net periodic benefit costs in Operations and Maintenance in the Operating Expenses section of the Consolidated Statements of Earnings. The change in presentation for the twelve months ended December 31, 2018 resulted in a reduction of Operations and Maintenance and an increase in Other Expense (Income), net on the Consolidated Statements of Earnings for the prior periods. There are $5.5 million, $5.7 million and $4.9 million of non-service cost net periodic benefit costs reported in Other Expense (Income), net for the twelve months ended December 31, 2018, 2017 and 2016, respectively, net of amounts deferred as regulatory assets for future recovery.

Depreciation and Amortization Depreciation expense is calculated on a group straight-line basis based on the useful lives of assets, and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company s fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company s consolidated financial statements. Provisions for depreciation were equivalent to the following composite rates, based on the average depreciable property balances at the beginning and end of each year: 2018 3.38%, 2017 3.45% and 2016 3.49%.

Stock-based Employee Compensation Unitil accounts for stock-based employee compensation using the fair value-based method (See Note 6).

Sales and Consumption Taxes The Company bills its customers sales tax in Massachusetts and Maine and consumption tax in New Hampshire. These taxes are remitted to the appropriate departments of revenue in each state and are excluded from revenues on the Company s Consolidated Statements of Earnings. The consumption tax in New Hampshire has been repealed effective January 1, 2019.

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

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

Dividends The Company s dividend policy is reviewed periodically by the Board of Directors. The amount and timing of all dividend payments is subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial conditions and other factors. For the year ended December 31, 2018 the Company paid quarterly dividends of $0.365 per share, resulting in an annualized dividend rate of $1.46 per common share. For the years ended December 31, 2017 and 2016, the Company paid quarterly dividends of $0.36 and $0.355 per common share, respectively, resulting in annualized dividend rates of $1.44 and $1.42 per common share, respectively. At its January 2019 meeting, the Unitil Corporation Board of Directors declared a quarterly dividend on the Company s common stock of $0.37 per share, an increase of $0.005 per share on a quarterly basis, resulting in an increase in the effective annualized dividend rate to $1.48 per share from $1.46 per share.

Cash and Cash Equivalents Cash and Cash Equivalents includes all cash and cash equivalents to which the Company has legal title. Cash equivalents include short-term investments with original maturities of three months or less and interest bearing deposits. The Company s cash and cash equivalents are held at financial institutions and at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. Under the Independent System Operator New England (ISO-NE) Financial Assurance Policy (Policy), Unitil s subsidiaries Unitil Energy, Fitchburg and Unitil Power are required to provide assurance of their ability to satisfy their obligations to ISO-NE. Under this Policy, Unitil s subsidiaries provide cash deposits covering approximately 2-1/2 months of outstanding obligations, less credit amounts that are based on the Company s credit rating. On December 31, 2018 and 2017, the Unitil subsidiaries had deposited $3.5 million and $2.9 million, respectively to satisfy their ISO-NE obligations. In addition, Northern Utilities maintains an account used to implement its natural gas hedging program. There were no cash margin deposits at Northern Utilities as of December 31, 2018 and 2017.

Allowance for Doubtful Accounts The Company recognizes a provision for doubtful accounts each month based upon the Company s experience in collecting electric and gas utility service accounts receivable in prior years. At the end of each month, an analysis of the delinquent receivables is performed which takes into account an assumption about the cash recovery of delinquent receivables. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company s distribution utilities are authorized by regulators to recover the costs of their energy commodity portion of bad debts through rate mechanisms. Also, the electric and gas divisions of Fitchburg are authorized to recover through rates past due amounts associated with hardship accounts that are protected from shut-off. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis. It has been the Company s experience that the assumptions it has used in evaluating the adequacy of the Allowance for Doubtful Accounts have proven to be reasonably accurate.

Accrued Revenue Accrued Revenue includes the current portion of Regulatory Assets (see Regulatory Accounting below) and unbilled revenues (see Utility Revenue Recognition above.) The following table shows the components of Accrued Revenue as of December 31, 2018 and 2017.

	December 31,	
Accrued Revenue (millions)	**2018**	**2017**
Regulatory Assets Current	**$ 41.3**	$ 39.5
Unbilled Revenues	**13.4**	13.8
Total Accrued Revenue	**$ 54.7**	$ 53.3

Exchange Gas Receivable Northern Utilities and Fitchburg have gas exchange and storage agreements whereby natural gas purchases during the months of April through October are delivered to a third-party. The third-party delivers natural gas back to the Company during the months of November through March. The exchange and storage gas volumes are recorded at weighted average cost. The following table shows the components of Exchange Gas

Receivable as of December 31, 2018 and 2017.

Exchange Gas Receivable (millions)	**December 31, 2018**	**2017**
Northern Utilities	**$ 7.5**	$ 5.4
Fitchburg	**0.6**	0.4
Total Exchange Gas Receivable	**$ 8.1**	$ 5.8

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Gas Inventory The Company uses the weighted average cost methodology to value natural gas inventory. The following table shows the components of Gas Inventory as of December 31, 2018 and 2017.

	December 31,	
Gas Inventory (millions)	**2018**	**2017**
Natural Gas	**$ 0.3**	$ 0.4
Propane	**0.4**	0.1
Liquefied Natural Gas & Other	**0.1**	0.1
Total Gas Inventory	**$ 0.8**	$ 0.6

Utility Plant The cost of additions to Utility Plant and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The average interest rates applied to AFUDC were 2.70%, 2.90% and 2.18% in 2018, 2017 and 2016, respectively. The costs of current repairs and minor replacements are charged to appropriate operating expense accounts. The original cost of utility plant retired or otherwise disposed of is charged to the accumulated provision for depreciation. The Company includes in its mass asset depreciation rates, which are periodically reviewed as part of its ratemaking proceedings, cost of removal amounts to provide for future negative salvage value. At December 31, 2018 and 2017, the Company estimates that the cost of removal amounts, which are recorded on the Consolidated Balance Sheets in Cost of Removal Obligations are $90.7 million and $84.3 million, respectively.

Regulatory Accounting The Company s principal business is the distribution of electricity and natural gas by the three distribution utilities: Unitil Energy, Fitchburg and Northern Utilities. Unitil Energy and Fitchburg are subject to regulation by the FERC. Fitchburg is also regulated by the Massachusetts Department of Public Utilities (MDPU), Unitil Energy is regulated by the New Hampshire Public Utilities Commission (NHPUC) and Northern Utilities is regulated by the Maine Public Utilities Commission (MPUC) and NHPUC. Granite State, the Company s natural gas transmission pipeline, is regulated by the FERC. Accordingly, the Company uses the Regulated Operations guidance as set forth in the FASB Codification. The Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

	December 31,	
Regulatory Assets consist of the following (millions)	**2018**	**2017**
Retirement Benefits	**$ 72.0**	$ 84.5
Energy Supply & Other Rate Adjustment Mechanisms	**38.4**	36.0
Deferred Storm Charges	**6.3**	7.2
Environmental	**7.9**	9.5
Income Taxes	**5.7**	6.5
Other Deferred Charges	**10.0**	5.4
Total Regulatory Assets	**$ 140.3**	$ 149.1
Less: Current Portion of Regulatory Assets[1]	**41.3**	39.5
Regulatory Assets noncurrent	**$ 99.0**	$ 109.6

(1) Reflects amounts included in Accrued Revenue on the Company s Consolidated Balance Sheets and in the Accrued Revenue table shown above.

	December 31,	
Regulatory Liabilities consist of the following (millions)	**2018**	**2017**
Rate Adjustment Mechanisms	**$ 11.5**	$ 6.9
Gas Pipeline Refund		2.3
Income Taxes (Note 9)	**47.0**	48.9
Total Regulatory Liabilities	**58.5**	58.1
Less: Current Portion of Regulatory Liabilities	**11.5**	9.2
Regulatory Liabilities noncurrent	**$ 47.0**	$ 48.9

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Generally, the Company receives a return on investment on its regulated assets for which a cash outflow has been made. Included in Regulatory Assets as of December 31, 2018 are $6.0 million of environmental costs, rate case costs and other expenditures to be recovered over varying periods in the next seven years. Regulators have authorized recovery of these expenditures, but without a return. Regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company s Consolidated Financial Statements. The Company believes it is probable that its regulated distribution and transmission utilities will recover their investments in long-lived assets, including regulatory assets. If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of the FASB Codification topic on Regulated Operations. If unable to continue to apply the FASB Codification provisions for Regulated Operations, the Company would be required to apply the provisions for the Discontinuation of Rate-Regulated Accounting included in the FASB Codification. In the Company s opinion, its regulated operations will be subject to the FASB Codification provisions for Regulated Operations for the foreseeable future.

Derivatives The Company s regulated energy subsidiaries enter into energy supply contracts to serve their electric and gas customers. The Company follows a procedure for determining whether each contract qualifies as a derivative instrument under the guidance provided by the FASB Codification on Derivatives and Hedging. For each contract, the Company reviews and documents the key terms of the contract. Based on those terms and any additional relevant components of the contract, the Company determines and documents whether the contract qualifies as a derivative instrument as defined in the FASB Codification. The Company has determined that none of its energy supply contracts qualify as a derivative instrument under the guidance set forth in the FASB Codification.

The Company previously operated a regulatory approved hedging program for Northern Utilities designed to fix or cap a portion of its gas supply costs for the coming years of service, which included use of derivative instruments. The hedging program was terminated in 2018.

Under the hedging program previously operated by Northern Utilities, any gains or losses resulting from the change in the fair value of these derivatives were passed through to ratepayers directly through Northern Utilities Cost of Gas Clause. The fair value of these derivatives was determined using Level 2 inputs (valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly), specifically based on the NYMEX closing prices for outstanding contracts as of the balance sheet date. As a result of the ratemaking process, the Company recorded gains and losses resulting from the change in fair value of the derivatives as regulatory liabilities or assets, then reclassified these gains or losses into Cost of Gas Sales when the gains and losses were passed through to customers through the Cost of Gas Clause.

As of December 31, 2018 and December 31, 2017, the Company had zero and 0.6 billion cubic feet (BCF), respectively, outstanding in natural gas purchase contracts under its hedging program. The Company had no derivative assets or liabilities recorded on its Consolidated Balance Sheets as of December 31, 2018 and December 31, 2017. There was zero and $0.4 million of losses / (gains) recognized in Regulatory Assets / Liabilities for the years ended December 31, 2018 and 2017, respectively. There were no losses / (gains) reclassified into the Consolidated Statements of Earnings for the years ended December 31, 2018 and 2017.

Investments in Marketable Securities The Company maintains a trust through which it invests in a variety of equity and fixed income mutual funds. These funds are intended to satisfy obligations under the Company s Supplemental Executive Retirement Plan (SERP) (See further discussion of the SERP in Note 10).

At December 31, 2018 and 2017, the fair value of the Company s investments in these trading securities, which are recorded on the Consolidated Balance Sheets in Other Assets, were \$4.8 million and \$3.6 million, respectively, as shown in the table below. These investments are valued based on quoted

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prices from active markets and are categorized in Level 1 as they are actively traded and no valuation adjustments have been applied. Changes in the fair value of these investments are recorded in Other Expense, net.

Fair Value of Marketable Securities (millions)	**December 31,**	
	2018	**2017**
Equity Funds	**$**	$ 2.1
Fixed Income Funds		1.5
Money Market Funds	**4.8**	
Total Marketable Securities	**$ 4.8**	$ 3.6

Energy Supply Obligations The following discussion and table summarize the nature and amounts of the items recorded as Energy Supply Obligations (current portion) and Other Noncurrent Liabilities (noncurrent portion) on the Company s Consolidated Balance Sheets.

	December 31,	
Energy Supply Obligations consist of the following: (millions)	**2018**	**2017**
Current:		
Exchange Gas Obligation	**$ 7.5**	$ 5.4
Renewable Energy Portfolio Standards	**5.6**	4.0
Power Supply Contract Divestitures	**0.3**	0.3
Total Energy Supply Obligations Current	**$ 13.4**	$ 9.7
Noncurrent:		
Power Supply Contract Divestitures	**$ 0.6**	$ 0.9
Total Energy Supply Obligations	**$ 14.0**	$ 10.6

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

Renewable Energy Portfolio Standards Renewable Energy Portfolio Standards (RPS) require retail electricity suppliers, including public utilities, to demonstrate that required percentages of their sales are met with power generated from certain types of resources or technologies. Compliance is demonstrated by purchasing and retiring Renewable Energy Certificates (REC) generated by facilities approved by the state as qualifying for REC treatment. Unitil Energy and Fitchburg purchase RECs in compliance with RPS legislation in New Hampshire and Massachusetts for supply provided to default service customers. RPS compliance costs are a supply cost that is recovered in customer default service rates. Unitil Energy and Fitchburg collect RPS compliance costs from customers throughout the year and demonstrate compliance for each calendar year on the following July 1. Due to timing differences between collection of revenue from customers and payment of REC costs to suppliers, Unitil Energy and

Fitchburg typically maintain accrued revenue for RPS compliance which is recorded in Accrued Revenue with a corresponding liability in Energy Supply Obligations on the Company s Consolidated Balance Sheets.

Fitchburg has entered into long-term renewable contracts for the purchase of clean energy and/or renewable energy certificates (RECs) pursuant to Massachusetts legislation, specifically, An Act Relative to Green Communities (Green Communities Act , 2008), An Act Relative to Competitively Priced Electricity in the Commonwealth (2012) and An Act to Promote Energy Diversity (Energy Diversity Act , 2016). The generating facilities associated with four of these contracts have been constructed and are now operating. Since 2017, the Company has participated in two major statewide procurements which resulted in contracts for imported hydroelectric power and associated transmission and for offshore wind generation. The contracts were filed with MDPU in 2018 and approvals remain pending.

Additional long-term clean energy contracts are expected in compliance with the Energy Diversity Act and An Act to Promote a Clean Energy Future (2018). Fitchburg recovers the costs associated with long-term renewable contracts on a fully reconciling basis through a MDPU-approved cost recovery mechanism.

Power Supply Contract Divestitures Unitil Energy s and Fitchburg s customers are entitled to purchase their electric or natural gas supplies from third-party suppliers. In connection with the implementation of retail choice, Unitil Power, which formerly functioned as the wholesale power supply provider for Unitil Energy, and Fitchburg divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs. The obligations related to these divestitures are recorded in Energy Supply Obligations (current portion) and Other Noncurrent Liabilities (noncurrent portion) on the Company s Consolidated Balance Sheets with corresponding regulatory assets recorded in Accrued Revenue (current portion) and Regulatory Assets (noncurrent portion).

Retirement Benefit Obligations The Company sponsors the Unitil Corporation Retirement Plan (Pension Plan), which is a defined benefit pension plan. Effective January 1, 2010, the Pension Plan was closed to new non-union employees. For union employees, the Pension Plan was closed on various dates between December 31, 2010 and June 1, 2013, depending on the various Collective Bargaining Agreements of each union. The Company also sponsors a non-qualified retirement plan, the Unitil Corporation Supplemental Executive Retirement Plan (SERP), covering certain executives of the Company, and an employee 401(k) savings plan. Additionally, the Company sponsors the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan), primarily to provide health care and life insurance benefits to retired employees.

The Company records on its balance sheets as an asset or liability the overfunded or underfunded status of its retirement benefit obligations (RBO) based on the projected benefit obligations. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas rates (See Note 10).

Off-Balance Sheet Arrangements As of December 31, 2018, the Company does not have any significant arrangements that would be classified as Off-Balance Sheet Arrangements. In the ordinary course of business, the Company does contract for certain office equipment, vehicles and other equipment under operating leases (See Note 5).

Commitments and Contingencies The Company s accounting policy is to record and/or disclose commitments and contingencies in accordance with the FASB Codification as it applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2018, the Company is not aware of any material commitments or contingencies other than those disclosed in the Commitments and Contingencies footnote to the Company s consolidated financial statements below (See Note 8).

Environmental Matters The Company s past and present operations include activities that are generally subject to extensive federal and state environmental laws and regulations. The Company has recovered or will recover substantially all of the costs of the environmental remediation work performed to date from customers or from its insurance carriers. The Company believes it is in compliance with all applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2018, there are no material losses that would require additional liability reserves to be recorded other than those disclosed in Note 8, Commitments and Contingencies. Changes in future environmental compliance regulations or in future cost estimates of environmental remediation costs could have a material effect on the Company s financial position if those amounts are not recoverable in regulatory rate mechanisms.

Recently Issued Pronouncements In August 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-14, Compensation Retirement Benefits Defined Benefit Plans General (Sutopic 715-20) which amends existing guidance to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The ASU is effective for fiscal years ending after December 15, 2020, with early adoption permitted. The Company adopted this ASU in the fourth quarter of 2018 and it did not have a material impact on the Company s Consolidated Financial Statements.

In June 2018, the FASB issued ASU No. 2018-07, Compensation Stock Compensation (Topic 718) which amends the existing guidance relating to the accounting for nonemployee share-based payments. Under this ASU, most of the guidance on share-based payments to nonemployees will be aligned with the requirements for share-based payments granted to employees. The ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company adopted this ASU in the second quarter of 2018 and it did not have a material impact on the Company s Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation Retirement Benefits (Topic 715) which amends the existing guidance relating to the presentation of net periodic pension cost and net periodic other post-retirement benefit costs. On a retrospective basis, the amendment requires an employer to separate the service cost component from the other components of net benefit cost and provides explicit guidance on how to present the service cost component and other components in the income statement. In addition, on a prospective basis, the ASU limits the component of net benefit cost eligible to be capitalized to service costs. The ASU became effective for the Company on January 1, 2018. The change in capitalization of retirement benefits did not have a material impact on the Company s Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) . The new standard requires lessees to record assets and liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The Company plans to adopt the standard as of January 1, 2019. The Company will elect the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows the Company to carryforward the historical lease classification. The Company will also elect the practical expedient related to land easements, allowing the Company to carry forward its current accounting treatment for land easements on existing agreements. The Company will make an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet. The Company will recognize those lease payments in the Consolidated Statements of Earnings on a straight-line basis over the lease term. The Company expects that adoption of the standard will result in recognition of approximately $4.2 million of lease assets and lease liabilities as of January 1, 2019 on the Company s Consolidated Balance Sheets. The Company does not believe the standard will have a material effect on its Consolidated Statements of Earnings and Consolidated Statements of Cash Flows.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) , which amends existing revenue recognition guidance, effective January 1, 2018. The objective of the new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability across entities, industries, jurisdictions, and capital markets and to provide more useful information to users of financial statements through improved and expanded disclosure requirements.

The majority of the Company s revenue, including energy provided to customers, is from tariff offerings that provide natural gas or electricity without a defined contractual term. For such arrangements, the Company generally expects that the revenue from contracts with these customers will continue to be equivalent to the electricity or natural gas supplied and billed in that period (including unbilled revenues) and the adoption of the new guidance will not result in a significant shift in the timing of revenue recognition for such sales.

The Company used the modified retrospective method when adopting the new standard on January 1, 2018. The new guidance did not have a material impact to the Consolidated Financial Statements. (See Utility Revenue Recognition and Other Operating Revenue Non-regulated above.)

In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01 which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. A

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financial instrument is defined as cash, evidence of ownership interest in a company or other entity, or a contract that both: (i) imposes on one entity a contractual obligation either to deliver cash or another financial instrument to a second entity or to exchange other financial instruments on potentially unfavorable terms with the second entity and (ii) conveys to that second entity a contractual right either to receive cash or another financial instruments from the first entity or to exchange other financial instruments on potentially favorable terms with the first entity. The ASU became effective for the Company on January 1, 2018 and it did not have a material impact on the Company s Consolidated Financial Statements.

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

Subsequent Events The Company evaluates all events or transactions through the date of the related filing. During the period through the date of this filing, the Company did not have any material subsequent events that would result in adjustment to or disclosure in its Consolidated Financial Statements.

Note 2: Quarterly Financial Information (unaudited; millions, except per share data)

Quarterly earnings per share may not agree with the annual amounts due to rounding and the impact of additional common share issuances. Basic and Diluted Earnings per Share are the same for the periods presented.

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Total Operating Revenues	**$ 145.8**	$ 126.0	**$ 84.5**	$ 80.8	**$**			